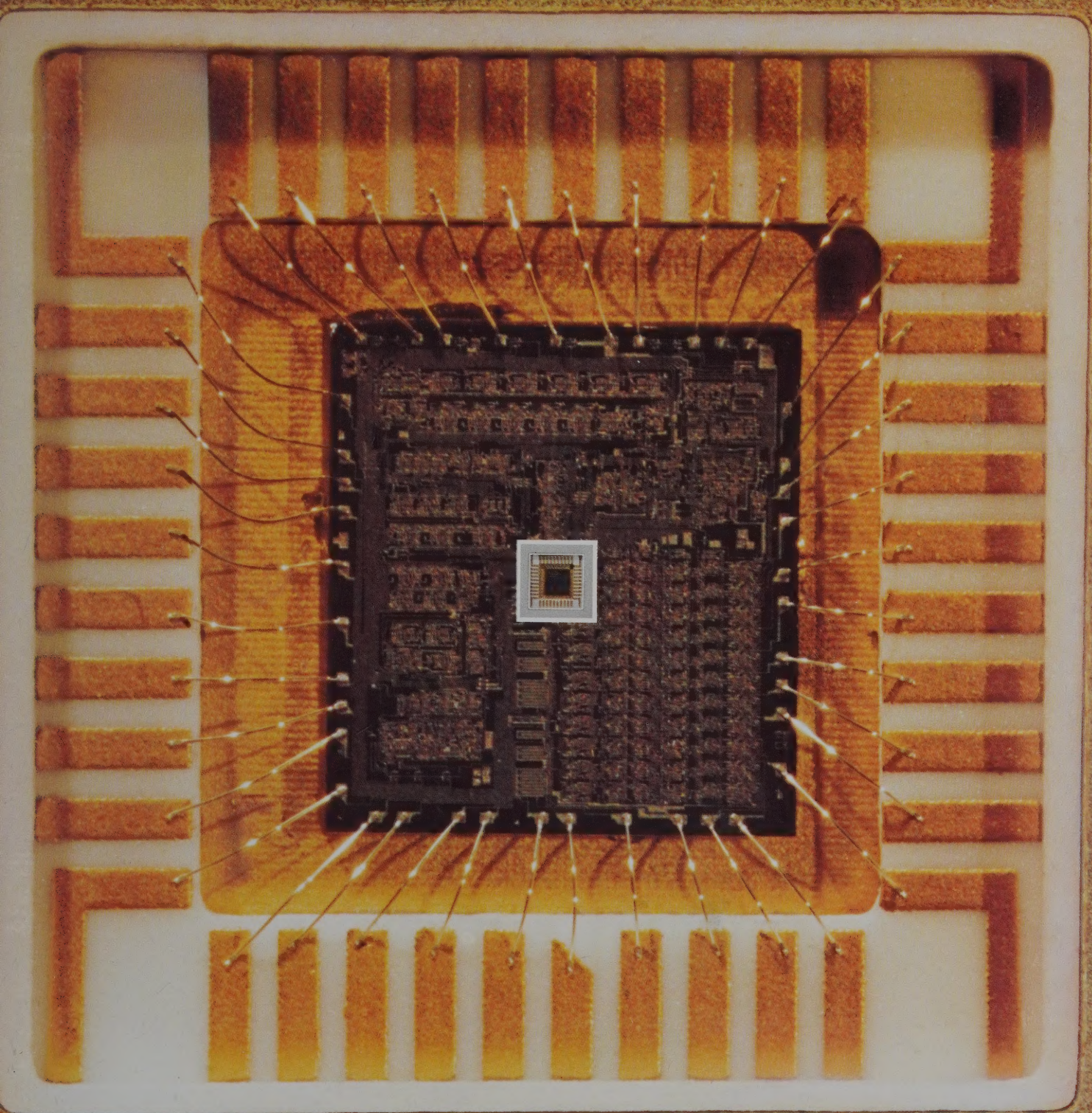




Northern Telecom Limited
1600 Dorchester Blvd. West
Montreal, Quebec H3H 1R1

Northern Telecom Limited

Northern Telecom Limited, formerly known as Northern Electric Company, Limited, is the principal supplier of telecommunications equipment in Canada and the second largest in North America. It operates 24 manufacturing plants in Canada, six in the United States and one each in Ireland, Turkey and Malaysia. A subsidiary, Nedco (1975) Limited, is the largest Canadian distributor of electrical and telecommunications products; an affiliate company, Bell-Northern Research Limited, maintains the largest industrial research organization in Canada.

Version française

Si vous désirez une version française de ce rapport, veuillez en faire la demande au service des relations de l'entreprise, Northern Telecom Limitée, case postale 6123, Montréal, Québec H3C 3J5.

Form 10K

The Form 10K Annual Report for 1975 as filed by the company with the Securities and Exchange Commission in Washington, D.C., is available to shareholders without charge upon written request to Roy T. Cottier, vice-president, corporate relations.

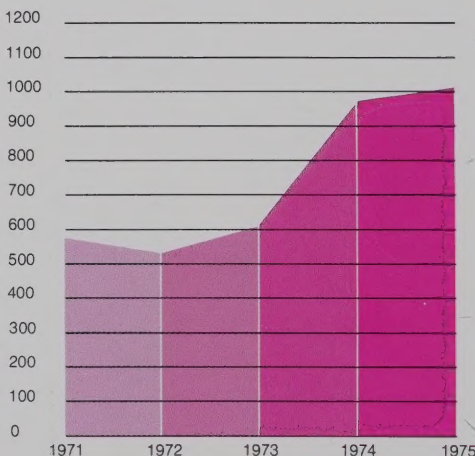
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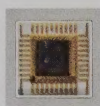
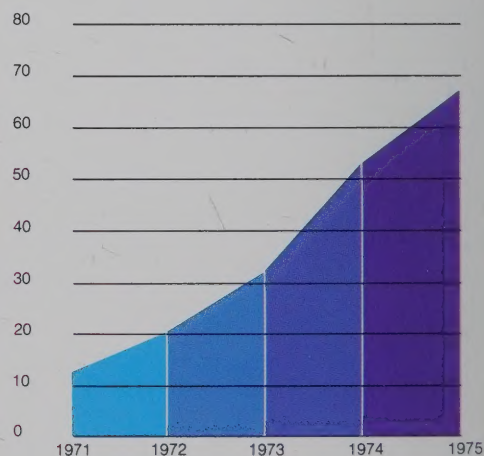
Financial highlights

	1975	1974
Sales	\$1,018,382,000	\$970,711,000
Net earnings	67,524,000	53,753,000
Net earnings per share	2.55	2.05
Dividends per share	0.60	0.525
Working capital	290,544,000	283,129,000
Capital expenditures	32,511,000	33,728,000
Shareholders' equity	339,864,000	285,202,000
Shares outstanding	26,469,494	26,209,556
Shareholders	8,753	2,254
Employees	23,690	26,147

Consolidated sales
(\$ millions)



Net earnings
(\$ millions)



Cover

The LSI (large scale integrated) chip, shown in actual size in the center of the cover and also shown magnified many times, was specially developed by Bell-Northern Research for Northern Telecom's new SL-1 digital business communications system. This single LSI chip, known as a scan and signal distributor, incorporates the equivalent of more than 1,600 separate devices, such as transistors and capacitors.

Securities and Exchange Commission

Washington, D.C. 20549

Report to shareholders

Consolidated sales for the second quarter of 1976 were \$305.1 million compared with \$281.5 in the second quarter of 1975. Consolidated net earnings rose to \$23 million compared with \$22.6 million the year before. Sales in the second quarter were the highest for any quarter in the company's history.

Consolidated sales for the first half reached \$581.7 million surpassing the previous record first six-months sales of \$546.2 million set in 1975; an increase of 6.5 percent. Consolidated net earnings in the first half reached \$42.8 million, 17.3 percent higher than the record \$36.5 million earned in the first half of 1975.

Earnings per share in the first half were \$1.62 compared with \$1.38 in 1975 and, in the second quarter, reached \$0.87 compared with \$0.85 in 1975.

The results include extraordinary gains in 1976 of \$1.1 million in the first half, and \$567,000 in the second quarter, from reduced income taxes arising from the use of a subsidiary's prior years' tax losses. In 1975 there was an extraordinary item of \$2.7 million reflecting a provision for costs of terminating semiconductor operations.

Earnings in the second quarter were affected by Canadian Anti-Inflation Board constraints, which did not permit price increases to keep pace with increases in labor and other costs.

The outlook for the balance of the year is clouded by the new anti-inflation regulations proposed by the Canadian government in May. The potential effects of these regulations on the Canadian economy and investment climate, and therefore on our future Canadian sales and earnings, are still not clear.

Expansion of manufacturing operations in Canada continues. Construction will begin this summer on a new cable plant in Amherst, N.S., where the company already has a telephone apparatus plant. The new facility will serve the Atlantic provinces and will produce wire and cable used extensively in urban and rural distribution systems. It represents an investment of about \$2 million.

A new cable plant in Regina, Sask., is in last stages of completion and will be producing cable for the western provinces in the third quarter.

In the United States, a consolidation of telephone set manufacture in the new Nashville, Tenn., plant is underway. In addition to manufacturing, Nashville will also be responsible for warehousing, customer service and distribution of telephone apparatus. The consolidation will phase out manufacture of telephone apparatus at the company's plant in Port Huron, Mich., and that plant will be closed.

The SL-1 digital private automatic branch exchange, developed by BNR, continues to meet excellent market reception.

The first international license to manufacture and market the SL-1 was granted in June to Televerket, the Swedish telecommunications authority. The technical assistance and licensing agreement will permit Televerket to introduce SL-1 into its market by 1978.

In North America, 30 systems had been shipped in the first six months of production. We expect to deliver 117 systems in Canada and U.S. before year-end. To meet the steadily increasing demand, production of the SL-1 began at the Mountain View, Cal., plant to complement the output of our factory at Belleville, Ont.

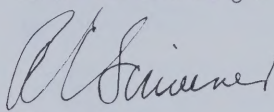
In May, we reached agreement with Cook Electric Company of Chicago, Ill., to acquire that company. The agreement has since been approved by the boards of directors of both companies. It now needs ratification by Cook shareholders.

Under the agreement Cook shareholders will receive .3636 of a share of Northern Telecom stock for each share of Cook Electric.

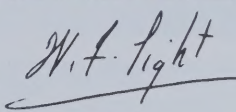
The acquisition will provide us entry into the manufacture and sale of outside plant equipment and into repair and overhaul of telecommunications equipment in the U.S. Annual sales of Cook Electric in 1975 were \$29 million.

New three-year agreements have been successfully negotiated with, and ratified by, all major unions representing our employees in the large manufacturing centers in Ontario and Quebec. These new contracts cover some 12,000 employees or 70 percent of our Canadian labor force. Negotiations with some smaller union locals and associations will begin later this month.

The economies of the United States and other key international markets continue to improve. We will be further concentrating our efforts in these markets.



Robert C. Scrivener
Chairman of the Board
August 4, 1976.



Walter F. Light
President

Digital leadership

Northern Telecom's technological leadership in the world telecommunications industry was again demonstrated and reinforced at a seminar held in May for 100 telephone executives from Canada, United States, Europe and Asia.

At the seminar the company became the first to announce plans to introduce a comprehensive line of digital telephone systems and apparatus. The new product line will include central office switching, transmission and business communications systems.

During the two-day sessions the world telephone executives were briefed on the new product line and the efficiency impact, operating benefits and cost savings that digital equipment would have on their telephone organizations. With digital equipment, voice, data and other telecommunications signals, can be sent with greater clarity and at lower cost.

R. C. Scrivener, Northern Telecom chairman, told the seminar: "The economics of digital are so impelling that the industry is going to do it digitally in the future and no other way."

The first member of the new Northern Telecom family of digital products is the SL-1 digital business communications system, which features a private branch exchange. This system, introduced in December, 1975, is already challenging Northern Telecom's Pulse EPABX systems for

Some 100 world telecommunications executives attended a two-day Northern Telecom seminar on digital equipment in May.





Clockwise: Gordon Holland, chairman, Manitoba Telephone System, discusses a digital exhibit with Walter Light, Northern Telecom president, Eldon Thompson, president, Trans-Canada Telephone System and Glover Anderson, vice-chairman, MTS, listen.

their leadership of the North American market, outside the U.S. Bell System. The SL-1 will be followed by Digital Multiplex Systems (DMS), a family of progressively larger central office switching systems. The DMS-1, a switching and transmission system designed for small communities, will be introduced this year. It will be followed by the larger units, DMS-10, DMS-100 and the DMS-200. A complete line of digital switching systems will be available by 1980.

'Phone of the future

The first working prototype of the telephone of the future was unveiled by Northern Telecom at its digital seminar.

There the company demonstrated a working laboratory model of a fully electronic telephone set. The model was developed in the laboratories of Bell-Northern Research Limited, near Ottawa.

In the electronic telephone, bulky mechanical components found in the base of the conventional telephone are replaced by integrated circuits. It creates a network so compact that it can all be incorporated in the body of the handset. This makes it possible to significantly reduce the size of the unit or add extra circuitry to give the telephone a wide range of special capabilities.

About 200 of the new electronic telephones will be field tested later this year.



Northern Telecom unveils the industry's first working electronic telephone.

Interim condensed consolidated statement of earnings*

Sales

Cost of sales and operating expenses

Earnings from operations

Income from investments less interest charges

Earnings before underlisted items

Provision for income taxes

Minority interest in net profit of subsidiary companies before extraordinary items

Net earnings before extraordinary items

Extraordinary items

Net earnings for the period

Net earnings per share

— before extraordinary items

— after extraordinary items

Dividends per share

Interim condensed consolidated statement of changes in financial position

Source of funds

Operations:

Net earnings before extraordinary items

Items not requiring funds

— depreciation

— other

Extraordinary items

Proceeds from issuance of capital stock

Proceeds from sale of plant and equipment after reflecting gains and losses in net earnings

Application of funds

Expenditures for plant and equipment

Reduction of long-term debt

Dividends

Investments in affiliated company

Elimination of contributed surplus and acquisition of goodwill

Other

Increase in working capital

Working capital at beginning of year

Working capital at end of period

*Reflects the results of the discontinuance of semiconductor operations in 1975, including an extraordinary item (net of income taxes and minority interest of \$2,277,000) to provide for costs of terminating these operations. Results from continuing operations before extraordinary items were as follows:

Sales

Net earnings

Net earnings per share

**Represents a reduction of income taxes arising from the utilization of prior years' tax losses of a subsidiary company.

(thousands of dollars)	
Three months ended June 30	
1976	1975
\$305,050	\$281,469
265,867	239,016
39,183	42,453
562	(1,666)
39,745	40,787
16,688	17,811
23,057	22,976
603	351
22,454	22,625
567**	—
\$ 23,021	\$ 22,625
\$0.85	\$0.85
\$0.87	\$0.85
\$0.15	\$0.15

(thousands of dollars)	
Six months ended June 30	
1976	1975
\$581,697	\$546,151
508,253	473,034
73,444	73,117
430	(3,236)
73,874	69,881
31,223	30,323
42,651	39,558
878	292
41,773	39,266
1,067**	(2,723)
\$ 42,840	\$ 36,543
\$1.58	\$1.48
\$1.62	\$1.38
\$0.30	\$0.30

(thousands of dollars)	
Six months ended June 30	
1976	1975
\$ 41,773	\$ 39,266
10,790	11,710
2,804	(1,789)
55,367	49,187
1,067**	(2,723)
—	5,228
6,563	442
62,997	52,134
18,172	12,570
16,853	1,619
7,941	7,927
2,345	2,680
—	5,149
1,817	1,555
47,128	31,500
15,869	20,634
291,549	284,304
\$307,418	\$304,938

(thousands of dollars)	
Three months ended June 30	
1976	1975
\$305,050	\$280,390
22,454	23,709
\$0.85	\$0.90

(thousands of dollars)	
Six months ended June 30	
1976	1975
\$581,697	\$541,301
41,773	40,975
\$1.58	\$1.55

AR18

second quarter 1976
interim report



**Northern Telecom
Limited**

1600 Dorchester Blvd. West
Montreal, Quebec
Canada H3H 1R1

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-K

Annual report pursuant to section 13 or 15(d) of
the Securities Exchange Act of 1934

For the fiscal year ended December 31, 1975 Commission File Number 1-7260

Northern Telecom Limited*

(Exact name of registrant as specified in its charter)

Canada(State or other jurisdiction of
incorporation or organization)**N/A**(I.R.S. Employer
Identification No.)

1600 Dorchester Boulevard West, Montreal, Quebec, Canada

(Address of principal executive offices)

H3H 1R1

(Zip Code)

Registrant's telephone number, including area code: (514) 931-5711**Securities registered pursuant to Section 12(b) of the Act:****Title of Class**Common shares without nominal
or par value.**Name of each exchange on which registered**New York Stock Exchange, Inc.
Montreal Stock Exchange
The Toronto Stock Exchange
Vancouver Stock Exchange**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark whether the registrant (1) has filed all annual, quarterly and other reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to the filing requirements for at least the past 90 days.

Yes ☒ X

No

*By Supplementary Letters Patent granted by the Department of Consumer and Corporate Affairs, Government of Canada, the Corporate name of Northern Electric Company, Limited, was changed to Northern Telecom Limited effective March 1, 1976.

Part I

ITEM 1 — Business of Northern Telecom Limited and its subsidiaries

Northern Telecom Limited (the "Company") was incorporated under the laws of Canada by Letters Patent dated January 5, 1914 and is a subsidiary of Bell Canada, a Canadian corporation which is the largest supplier of telecommunication services in Canada. The Company and its subsidiaries manufacture a broad line of telecommunication equipment for sale throughout the world, primarily to the Canadian telephone industry. Nedco (1975) Ltd., formerly Microsystems International Limited ("Microsystems"), a wholly-owned subsidiary of the Company, and its subsidiary companies distribute in Canada a wide range of electrical and industrial products. In 1975, about 50% of the Company's consolidated sales were to purchasers not affiliated with Bell Canada or its subsidiaries and approximately 9% of consolidated sales of the Company were in the United States and 5% were outside Canada and the United States.

Sales (analysed by principal product lines) and contribution to profits (earnings before income taxes, minority interest and extraordinary items) attributable to manufacturing and distributing lines of business of the Company and its subsidiary companies have been as follows:

(Unless otherwise indicated, dollar amounts are expressed in Canadian dollars. Since June 1, 1970 the Government of Canada has permitted market forces to establish the exchange rate of the Canadian dollar against the U.S. dollar. The high and low spot rates for the U.S. dollar in Canada for the period June 1, 1970 through December 31, 1975, as reported by the Bank of Canada, were 1.0456 and 0.9747 respectively. The noon spot rate, as reported by the Bank of Canada was 1) on December 31, 1975, 1.0164 (U.S. \$1 equals Canadian \$1.0164) and 2) on March 25, 1976, 0.9838 (U.S. \$1 equals Canadian \$0.9838).)

	(thousands of dollars)				
	Year ended December 31				
Sales	1975	1974	1973	1972	1971
Manufacturing*					
Switching	\$ 385,716	\$313,705	\$177,122	\$161,210	\$178,753
Wire and cable	158,059	190,815	137,551	119,388	135,561
Subscriber apparatus and business communications systems	180,350	181,378	117,401	106,707	94,953
Transmission	136,192	103,208	69,556	56,049	65,114
Others	4,850	23,676	16,056	8,117	1,542
	865,167	812,782	517,686	451,471	475,923
Distributing	153,215	157,929	95,135	82,842	100,373
	<u>\$1,018,382</u>	<u>\$970,711</u>	<u>\$612,821</u>	<u>\$534,313</u>	<u>\$576,296</u>
Contribution to Profits					
Manufacturing*	\$ 113,900	\$ 93,051	\$ 54,670	\$ 40,149	\$ 23,470
Distributing	7,930	8,336	3,988	2,105	1,100
	<u>\$ 121,830</u>	<u>\$101,387</u>	<u>\$ 58,658</u>	<u>\$ 42,254</u>	<u>\$ 24,570</u>

*Includes sales and contribution to profits of the Company's manufactured products distributed by subsidiary companies.

Manufacturing

Telecommunication products manufactured by the Company include equipment, apparatus (central office switching equipment, subscriber apparatus and business communications systems and transmission equipment) and wire and cable.

Switching equipment is used in telephone exchanges to connect both local and long distance calls. The latest generation of switching equipment uses computer control techniques and electronic circuitry. In late 1971, the Company placed in commercial service the first electronic switching system in the SP-1 family of stored program computer controlled electronic switching systems and had installed 78 such systems by the end of December 1975. From the date of the first order in 1969, the cumulative number of SP-1 systems ordered to December 31, 1975 was 164 at a value of approximately \$516,000,000 with a significant number being from telephone operating companies in the United States. Open orders for SP-1 systems at December 31, 1975 amounted to approximately \$188,000,000.

Subscriber apparatus is the equipment used on the subscriber's premises and consists mainly of telephone sets and peripheral devices such as speaker units. The Company manufactures dial telephones, key telephone sets, push-button telephones that can also serve as computer input devices, CONTEMPRA* telephones, and CENTURION* single-slot coin telephones. The LOGIC* multiline station equipment series provides plug-in facilities for telephone accessories such as speaker units. COMPANION* handsfree units, introduced in 1973, are designed for both the residential and business markets.

The Company manufactures business communications equipment including data systems, key telephone systems, intercom systems, cordless switchboards, manual and private automatic branch exchanges and other specifically designed equipment employing new technological developments such as microcircuits. PULSE*, a fully electronic private automatic branch exchange (EPABX) introduced in 1972, and SL-1, a larger digital EPABX now being introduced, are examples of such developments.

Transmission equipment carries telecommunication traffic between central exchanges. It includes microwave radio circuits, satellite communications systems and electronic equipment used with cables. The Company produces a broad line of high-performance transmission systems, including multiplex, microwave radio, cable carrier and line equipment. For example, the MA-5 multiplex combines up to 2700 voice channels on a single transmission path. The Company has introduced several new products such as the RA-3 microwave radio for long-haul, heavy-route microwave systems, which is in widespread use in Canada and has been ordered by Western Union Telegraph Company and by RCA Alascom Communications, in the United States. Another new product, the LD-4 digital coaxial carrier system, provides 20,000 two-way voice channels on a 12-tube coaxial cable. The first major LD-4 system has been installed for the new, high-capacity Montreal-Ottawa-Toronto communications route.

The Company has supplied communications equipment for the international INTELSAT IV series of satellites and for the Anik Canadian domestic satellites. Equipment has been delivered for United States domestic satellite systems, including four communications platforms for Western Union Telegraph Company, and is currently being manufactured for the Indonesian satellite.

Wire and cable is produced for telephone operating companies as well as the electrical power industry and ranges from telephone wires to high-capacity communications transmission cable. The Company operates its own rod rolling mill. Power cables, composite coaxial cables, switchboard cables, pulp-insulated exchange cables and polyethylene insulated cables are manufactured for a variety of users.

Other products including terminals and closures, loading devices, protectors, heat coils, back boards and cases are manufactured for use in the installation and connection of wire and cable.

*denotes Trademarks

Markets

Canada

The primary market in Canada for telecommunication equipment consists of telephone operating companies connecting about 13.1 million telephones, of which Bell Canada and its subsidiaries account for about 68%. In 1975, about 690,000 telephones were added to the Canadian network, and in the five year period ended December 31, 1975, the estimated number of telephones in Canada increased from 9.8 million to about 13.1 million.

Expenditures on telephone sets represent a small part of the overall annual capital expenditures by telephone operating companies. Industry statistics show that in Canada in 1975 telephone companies spent more than \$2,000 for each new telephone added. While this amount includes the cost of buildings, vehicles and other items, most of the expenditures are for telecommunication equipment. Spending by Canadian telephone companies as evidenced by construction and equipment expenditures rose from \$706 million in 1970 to \$1,675 million in 1975.

Bell Canada and its telephone subsidiaries are in the aggregate the Company's largest customer. Bell Canada is subject to regulation by the Canadian Transport Commission in respect of its rates, while the rates of Bell Canada's telephone subsidiaries are subject to regulation by the provincial regulatory authorities in the province or provinces in which such subsidiaries operate. The ability of Bell Canada and its telephone subsidiaries to finance capital expenditure programs is affected by the decisions of the various regulatory authorities with regard to rate increases and by the Canadian anti-inflation legislation controlling increases in such items as dividends. For example, following the July 28, 1975 decision of the Canadian Transport Commission which granted half of the interim increase requested by Bell Canada, Bell Canada decided to reduce its capital expenditure program for 1975. Installation of certain equipment to meet existing service demands was affected by that cutback in expenditures although Bell Canada has stated that its capital expenditures planned for 1976 should permit it to return to normal operating levels. At December 31, 1975 Bell Canada and its telephone subsidiaries had on order from the Company, for future delivery, equipment and materials with a total sales value of approximately \$259 million and the Company had orders from

third parties of approximately \$206 million. Approximately 95% of these orders is expected to be delivered in 1976. At December 31, 1974 the Company's backlog of orders from Bell Canada and its telephone subsidiaries totalled approximately \$221 million and from third parties totalled approximately \$252 million. The backlog of orders is composed of a wide variety of telecommunication equipment, most of which is specially designed and manufactured to customer requirements and is ordered well in advance of required delivery time in order to ensure readiness for installation in accordance with the customer's installation schedule.

The Company has an agreement with Bell Canada under which the Company agrees, to the extent reasonably required for Bell Canada's business, to manufacture materials or purchase materials manufactured by others, to sell such materials to Bell Canada, to maintain stocks at distributing points, to prepare equipment specifications and to perform installations of materials, and to repair or dispose of used materials returned by Bell Canada. The Company's prices and terms are to be as low as those offered to its most favoured customers for like materials and services under comparable conditions in effect at the date of the order. At present export sales are generally not considered to be made under conditions comparable to domestic sales. Sales of the Company and its subsidiaries to Bell Canada and its telephone subsidiaries for the years ended December 31, 1975 and 1974 amounted to \$510,938,000 and \$522,697,000 respectively.

United States — Northern Telecom, Inc. ("N.T.I.")

The Company's primary market in the United States consists of telephone operating companies independent of the U.S. Bell System (American Telephone and Telegraph Company ("AT&T") and its subsidiaries) connecting about 27 million telephones; of this market approximately 12 million telephones belong to the General Telephone & Electronics ("GTE") group which manufactures most of its own equipment. The Company also makes sales of some products from time to time to the U.S. Bell System which represents over 80% of the United States telephone market.

N.T.I., a wholly-owned subsidiary of the Company with its headquarters in Waltham, Massachusetts, was formed in 1971 to manufacture and market telecommunication equipment in the United States and currently has 6 plants operating in the United States, including a telephone apparatus assembly plant at Port Huron, Michigan, a telecommunication transmission test equipment manufacturing plant in Concord, New Hampshire, an electronic systems manufacturing plant in Butner, North Carolina, a private automatic branch exchanges and other telecommunication products manufacturing plant in Mountain View, California and a printed circuit boards and other products manufacturing plant near West Palm Beach, Florida. In 1975 manufacturing facilities were acquired in Nashville, Tennessee for the production of telephone apparatus equipment. N.T.I. markets in the United States all products referred to under "Manufacturing". It is one of the few companies selling such extensive and varied telecommunication product lines in the United States.

Other markets

Markets outside North America include telecommunication systems owned primarily by governments. Although the potential growth of these markets is considered higher than that of North America, access to them is more difficult because of government policies favouring purchases from traditional suppliers and the different technical requirements of the many countries involved.

In 1967, the Company incorporated a manufacturing company in the Republic of Turkey, Northern Electric Telekomunikasyon A.S. (owned 51% by the Company and 49% by the Post Telegraph and Telephone Administration of the Republic of Turkey) which produces switching equipment, associated power supplies and switchboards, and telephone sets.

Northern Electric Company (Ireland) Limited, a wholly-owned subsidiary, was incorporated in 1973 to manufacture products in Galway, Republic of Ireland, associated with telephone station equipment and electronic private automatic branch exchanges, components and sub-assemblies. Production commenced in September 1973.

Subsidiaries of the Company have offices in Amsterdam, London, Paris, Hong Kong, Penang, Singapore and West Palm Beach.

The Company has entered into various licensing agreements with other companies to manufacture its products.

Distributing

Nedco (1975) Ltd. (formerly Microsystems) acquired the operating assets (including shares of subsidiaries) and assumed the liabilities of Nedco Ltd. effective June 1, 1975. Nedco Ltd. and its subsidiaries were engaged (and Nedco (1975) Ltd. and its subsidiaries ("Nedco") are now engaged) in the distribution of electrical, electronic and industrial products from sales offices and warehouses in more than 40 Canadian

cities. Nedco distributes more than 15,000 industrial, electrical and electronic products from over 200 manufacturers, with the Company supplying a little more than 20% of Nedco's total product purchases in 1975. The main product groups are wire and cable, wiring supplies, illumination products, utility products, motors, control systems, and, more recently, telecommunication and industrial electronic products.

Nedco's major markets are electrical contractors and the manufacturing industry, which together account for 65% of total sales. Power utilities, telephone operating companies, the mining industry and governments account for most of the remainder of the sales. No one customer accounted for more than 2% of 1975 sales of Nedco.

Microsystems

Microsystems, a subsidiary of the Company, was engaged in the manufacture of microelectronic products, including semiconductors, integrated circuits and similar products for the computer and telecommunication industries. From its inception in 1969 through the termination of its manufacturing operations in 1975, Microsystems incurred losses aggregating \$49,426,000 (See Note A to the Condensed Consolidated Statement of Earnings.) The plant was closed, the building sold to Bell-Northern Research Ltd., the balance of the loan by the federal government to Microsystems was repaid and all technology and patents derived from government funding were assigned to the federal government. The equipment of Microsystems is gradually being sold. Provision for costs of terminating the business has been made in the 1975 accounts. (See notes 2 and 5 of the Notes to the Consolidated Financial Statements.)

Source and availability of raw materials

The Company is a major user of copper and makes significant purchases of aluminum, steel, precious metals, plastics and other materials from many domestic and foreign sources. It has been able to obtain sufficient copper and other materials from domestic producers and world market sources to support production of cable and wire products despite labour disturbances and other market factors contributing to short supply from time to time in recent years. The Company strives to develop and maintain alternate sources of supply of essential raw materials and from time to time maintains special inventories of such materials which may be in short supply.

Research and development

Before 1958, most of the designs and much of the technology employed by the Company came from Western Electric Company, Incorporated ("Western Electric"), a subsidiary of AT&T. In 1958 the Company established a separate research and development organization to develop new products, thus beginning a process which over the intervening years has made the Company largely self-sufficient in design and technology. The Company has continuing rights to use all Western Electric's inventions on which patents were issued prior to June 30, 1974 and patents issued subsequent to that date on inventions made prior to June 30, 1974. The Company has the right to use certain technical information of Western Electric and has concluded negotiations with Western Electric for the right to use patents on inventions made during the five year period subsequent to June 30, 1974. Royalties paid by the Company to Western Electric and other companies in 1975 represented less than 0.3% of the Company's consolidated sales. The Company's rights to use existing patented inventions of Western Electric and of AT&T and certain of Western Electric's technical information will not be affected by the termination of the Service Agreement between Bell Canada and AT&T, which Service Agreement entitled Bell Canada and its telephone operating subsidiaries to use, for a consideration, telephone devices, apparatus, methods, systems, assistance and advice needed for its telecommunications business, including matters covered by Canadian patents, owned or controlled by AT&T or any of its subsidiaries and which AT&T had the right to authorize Bell Canada and its operating subsidiaries to use. Upon termination of the Service Agreement as of June 30, 1975, the parties retained reciprocal rights with respect to certain patents.

To consolidate research efforts of the Company and of Bell Canada, Bell-Northern Research Ltd. ("BNR") was incorporated and commenced operations in 1971. BNR (which is owned 51% by Bell Canada and 49% by the Company) operates research and development laboratories and undertakes the major part of the research activities of the Company and Bell Canada and its other subsidiaries, with a staff of over 1,700 employees, including more than 1,100 scientists, engineers, industrial designers and other professional personnel. BNR is the largest industrial research and development organization in Canada. A U.S. subsidiary was formed in 1975 and has commenced research and development activities in Palo Alto, California. BNR carries out research, design, development, long range planning and systems engineering in all fields of telecommunications. In 1975 and 1974 the Company and its subsidiaries expended approximately \$49,000,000 and \$44,000,000, respectively, on research and development, including \$32,000,000 and \$28,000,000, respectively, attributable to BNR.

On November 28, 1973, the Company, Bell Canada and BNR entered into an agreement whereby patents resulting from BNR's research and development activities are generally to be assigned to the Company for exploitation on behalf of the three companies. Provisions are made for the division of royalties between Bell Canada and the Company. Bell Canada and BNR however may use such patents in their own businesses

without payment of royalty. The agreement also provides for the use by the three companies of technical information produced by any one of them and sets forth the conditions of such use.

Competition

Competitors in the telecommunication equipment market are numerous and vary from very small, highly specialized manufacturers to large multinational companies. Major telecommunication equipment suppliers sell to Bell Canada and compete for the business of the Canadian and other North American and world telephone networks.

The Company believes it is the second largest manufacturer of telecommunication equipment sold in North America. It sells to all segments of the Canadian telephone operating company market and believes that it has in excess of 70% of this market. Its major competitors include subsidiaries of GTE and International Telephone and Telegraph Corporation ("ITT") which manufacture and market telecommunication equipment in Canada.

In the United States, the largest manufacturer, Western Electric, sells almost exclusively to the U.S. Bell System and government agencies. Competitors for the independent telephone operating company market include GTE Automatic Electric Inc. (a subsidiary of GTE), North Electric Company (a subsidiary of United Telecommunications, Inc.), Superior Continental Corp. (a subsidiary of Continental Telephone Corporation), Stromberg-Carlson Corporation (a subsidiary of General Dynamics Corporation) and manufacturing affiliates of ITT.

In Europe the major manufacturers are The Plessey Company Limited and The General Electric Company Limited of the United Kingdom, Philips Industries, N.V. of Holland, L.M. Ericsson Telephone Company of Sweden, Siemens A.G. of West Germany and other national and European-based international companies. Subsidiaries of ITT and GTE have established positions in the market, while the Company, other North American manufacturers and Japanese manufacturers are intensifying their efforts to obtain a share of this and other developing markets in the world.

The electrical distribution industry in Canada consists of more than 120 companies of which 4 companies including Nedco have national distribution networks. Nedco estimates its share of this market to be in excess of 13%.

Employee relations

At December 31, 1975 over 69% of the approximately 22,000 employees of the Company and its subsidiaries were represented by unions. The Company's principal labour contracts, all of which contained clauses providing for cost of living allowances, were entered into in 1973 following a series of strikes, and expired or will expire between February 25, 1976 and April 20, 1976. On March 21, 1976 the Company and the United Auto Workers, which represents approximately 3,000 employees reached an agreement with respect to a new 3 year contract which contains a cost of living allowance. Negotiations with the other unions, which commenced before expiration of their respective agreements, are continuing as of the date hereof. Canadian anti-inflation legislation controlling increases in compensation may affect negotiations between the Company and the various unions representing its employees.

Canadian anti-inflation legislation

Anti-inflation legislation in Canada controlling increases in prices, compensation, profit margins and dividends took effect on October 14, 1975. The Company and its Canadian subsidiary companies are subject to this legislation.

The Company and its Canadian subsidiary companies are in the process of ensuring compliance with the legislation. The effects, if any, which the legislation may have on future prices and profit margins cannot be determined at this time since the legislation is new and interpretations and clarifications are being issued progressively by the government organization responsible for monitoring compliance.

It would appear that, under the legislation, in the case of sales attributable to manufacturing operations, price changes in individual products and services are to correspond to changes in unit costs. Where unit costs are not available, price increases are permitted to the extent that pre-tax profit margins by product line, or in total, shall not generally exceed 95% of the applicable average pre-tax profit margin (after adjustment for unusual items) for the taxation years 1970 through and including 1974.

In the case of sales attributable to distributing operations, the legislation requires that prices be restricted generally so that the 1974 gross profit rates are not exceeded.

Based on preliminary compliance calculations, it is management's opinion that the legislation has been adhered to in 1975.

Under the legislation, the Company is not currently permitted to increase the rate of dividends paid on its Common Shares.

ITEM 2 — Summary of operations

The following is a condensed consolidated statement of earnings of the Company and its subsidiary companies (note A) for the five years ended December 31, 1975. This statement should be read in conjunction with the consolidated financial statements and related notes included elsewhere herein:

	(millions of dollars except per share figures)				
	1975	1974	1973	1972	1971
Sales	\$1,018.4	\$970.7	\$612.8	\$534.3	\$576.3
Cost of sales	(738.2)	(725.3)	(452.1)	(405.4)	(465.6)
Operating expenses	(153.8)	(139.2)	(99.3)	(83.1)	(81.7)
Earnings from operations	126.4	106.2	61.4	45.8	29.0
Income from investments	3.7	2.9	3.8	2.1	1.3
Interest charges	(8.3)	(7.7)	(6.6)	(5.6)	(5.7)
Provision for income taxes	(49.7)	(50.6)	(30.6)	(23.6)	(14.5)
Minority interest in net (profit) loss of subsidiary companies before extraordinary items	(1.9)	3.0	4.0	1.6	2.5
Net earnings before extraordinary items	70.2	53.8	32.0	20.3	12.6
Extraordinary items*	(2.7)	—	—	(.2)	—
Net earnings	\$67.5	\$53.8	\$32.0	\$20.1	\$12.6
Net earnings per share: **					
— before extraordinary items	\$2.65	\$2.05	\$1.35	\$0.86	\$0.54
— after extraordinary items	\$2.55	\$2.05	\$1.35	\$0.85	\$0.54
Dividends per share	\$0.60	\$0.525	\$0.50	\$0.50	\$0.50

A. Disposal of a segment of a business

The extraordinary item of \$2,723,000 in 1975 represents a provision for costs of terminating the semiconductor business of Microsystems. This presentation is in accordance with Canadian reporting practices.

Under U.S. practices the disposal of a segment of a business requires different reporting; however, net earnings and earnings per common share are identical under both Canadian and U.S. reporting practices. The classification of this item as a "disposal of a segment of a business" under U.S. reporting practices would have resulted in the following revised figures in the condensed consolidated statement of earnings:

	(millions of dollars except per share figures)				
	1975	1974	1973	1972	1971
Sales as reported	\$1,018.4	\$970.7	\$612.8	\$534.3	\$576.3
Less: Sales of discontinued operations	4.9	23.7	15.9	7.8	1.5
Sales of continuing operations	\$1,013.5	\$947.0	\$596.9	\$526.5	\$574.8
Net earnings from continuing operations	\$71.9	\$62.2	\$38.1	\$22.6	\$16.5
Discontinued operations (net of minority interest):					
Loss from operations of discontinued business	\$ 1.7***	\$ 8.4	\$ 6.1	\$ 2.5	\$ 3.9
Loss on termination of discontinued business (net of income taxes of \$2.1)	2.7	—	—	—	—
	\$ 4.4	\$ 8.4	\$ 6.1	\$ 2.5	\$ 3.9
Net earnings	\$67.5	\$53.8	\$32.0	\$20.1	\$12.6
Net earnings per share (after extraordinary items):**					
From continuing operations	\$2.72	\$2.38	\$1.61	\$0.97	\$0.70
From discontinued operations (losses)	(0.17)	(0.33)	(0.26)	(0.12)	(0.16)
Net earnings	\$2.55	\$2.05	\$1.35	\$0.85	\$0.54

*Net of income taxes and minority interest.

**Based on average number of shares outstanding (000)

26,433 26,164 23,671 23,562 23,562

***Net of income taxes of \$1.1, see note 1 — income taxes of Notes to the Consolidated Financial Statements.

Management's discussion and analysis of condensed consolidated statement of earnings of Northern Telecom Limited and subsidiary companies

Consolidated sales were \$1,018,382,000 in 1975 compared to \$970,711,000 in 1974, an increase of 5 percent principally as a result of price increases. Substantial sales volume gains were achieved in the switching and transmission businesses, but wire and cable volume declined in generally slower markets. Sales in 1974 were 58 percent above the previous year due largely to higher volume of established products and the successful introduction of several new products.

Sales to Bell Canada increased during the 1974-1975 period but accounted for a smaller portion of total sales. Bell Canada's share of total sales declined to 44 percent in 1975 and 48 percent in 1974 compared with 52 percent in the previous year.

Net earnings of \$67,524,000 in 1975 were a new company record, equal to 6.6 percent of sales and an increase of 26 percent over 1974. Net earnings of \$53,753,000 in 1974 were 68 percent above the previous year and represented 5.5 percent of sales.

Wage and salary rates and the unit costs of materials have escalated during the last two years due to inflation. Selling prices have been raised but at a significantly lesser rate than inflation. Product redesigns, new facilities and methods, and other programs to reduce manufacturing costs and increase productivity have partially offset the effects of inflation and have improved gross profit margins and contributed to the higher earnings performance. The number of employees at the end of 1975 was 1400 below the 1973 year-end level.

Operating expenses increased during the 1974-1975 period but declined in relation to sales. These expenses increased as a result of inflation in employment and other costs and to support the growth of the business. Selling and marketing programs were expanded, particularly in the United States and international markets. Research and development emphasis was placed on new switching, transmission and other products using digital technology.

Interest charges increased in both 1974 and 1975 due to rising trends in interest rates coupled with higher average borrowings required to meet expanded business needs. However, borrowings were reduced substantially in the second half of 1975, thereby reducing the level of interest charges at year-end.

The effective tax rate in 1975 was 41.4 percent compared with 48.5 percent in 1974. The higher rate in 1974 was due principally to a net loss in a subsidiary, Microsystems, not allowed as an expense for tax purposes. The loss resulted from semiconductor operations which were discontinued in the first half of 1975. (See Notes to the Consolidated Financial Statements.)

Earnings per share amounted to \$2.55 in 1975 and \$2.05 in 1974, each a record high for the Company over previous years.

Return on shareholders' average equity (net earnings divided by the average of the beginning and ending shareholders' equity for each year) was 21.6% in 1975 compared with 20.3% in the previous year.

ITEM 3 — Properties

At December 31, 1975 the Company operated 31 plants and warehouses in 8 provinces of Canada, occupying 5,384,000 square feet of space, of which approximately 1,678,000 square feet were leased.

N.T.I. operated assembly and manufacturing facilities at Port Huron, Michigan; Concord, New Hampshire; Butner, North Carolina; Mountain View, California; West Palm Beach, Florida; and Nashville, Tennessee, for total plant facilities of 475,000 square feet of which approximately 165,000 square feet were leased. N.T.I. maintained sales offices in New York, North Carolina, Florida, Texas, California, Illinois and Puerto Rico and a distribution centre in Georgia.

Nedco operated 50 warehouses and sales offices across Canada in more than 40 Canadian cities in all 10 provinces occupying approximately 884,000 square feet, of which 191,000 square feet were owned by the Company or Nedco and the remainder leased.

The Company's other subsidiaries had plants in Turkey, the Republic of Ireland and Malaysia occupying 81,000 square feet, of which about 50,000 square feet are owned and the balance leased.

ITEM 4 — Parents and subsidiary companies

At December 31, 1975 Bell Canada was the beneficial owner of 18,311,199 or 69.2% of the outstanding Common Shares of the Company.

Bell Canada has issued warrants which entitle the holders thereof to purchase from Bell Canada at any time prior to December 1, 1979 one common share of the Company at \$21.50. At December 31, 1975, 1,998,699 warrants remained outstanding. Assuming the exercise of the 1,998,699 warrants Bell Canada's shareholdings in the Company would be reduced to 61.6%.

Registrant	Organized under the Laws of	Percentage ownership of common shares by Registrant
Northern Telecom Limited	Canada (Letters Patent)	
Subsidiary companies of Registrant as of December 31, 1975*		
Nedco (1975) Ltd. (formerly Microsystems) (the remaining 42.9% is owned by Nedco Ltd.)	Canada (Letters Patent)	57.1%
Nedco Ltd.	Canada (Letters Patent)	100%
Nevron Industries Company Limited	Canada (Letters Patent)	100%
Northern Electric Caribbean Limited	Jamaica (Articles of Association)	100%
Northern Electric Company (Ireland) Limited	Republic of Ireland (Articles of Association)	100%
Northern Electric Telekomunikasyon A.S.	Republic of Turkey (Articles of Incorporation)	51%
Northern Telecom, Inc.	State of Delaware (U.S.A.) (Articles of Incorporation)	100%
Northern Electric (Europe) N.V.	The Netherlands (Articles of Association)	100%
Northern Electric (International) N.V.	The Netherlands (Articles of Association)	100%
Bell-Northern Research Ltd. (The remaining 51% is owned by Bell Canada)	Canada (Letters Patent)	49%

*All listed subsidiary companies except Bell-Northern Research Ltd. are included in the Company's Consolidated Financial Statements.

ITEM 5 — Legal proceedings

On August 31, 1971, an action was instituted in the Superior Court, District of Montreal, against the Company by Radionica A.G., claiming \$9,200,000 arising from the Company's unaccepted tender for the installation of a microwave system in Libya. Radionica A.G. has claimed \$1,350,000 in lost commissions, \$350,000 in loss of profits and \$7,500,000 in damages to reputation and goodwill. On August 1, 1974, an action was instituted in the Superior Court, District of Montreal, against the Company by Albatros Naviera S.A., claiming \$8,960,000 arising from the unsuccessful attempt to secure a contract for the installation of telephone lines and equipment in Peru and the alleged improper termination of a Venezuelan representative agreement. Albatros Naviera S.A. has claimed \$7,690,000 in lost commissions, \$1,000,000 in damages for loss of commission or damage to its reputation and \$270,000 as finder's fee and standby fee. Ogilvy, Cope Porteous, Montgomery, Renault, Clarke & Kirkpatrick of Montreal, counsel to the Company in these suits, is of the opinion that there are valid substantive defences to both actions.

On October 11, 1974, Neuberger & Berman, a member firm of the New York Stock Exchange, commenced a class action in the United States District Court for the Southern District of New York against the Company and its Chairman of the Board and Chief Executive Officer, alleging, essentially, material misstatements and omissions in the soliciting materials and filings with the Securities and Exchange Commission in violation of the Securities Exchange Act of 1934 and regulations thereunder in connection with the Company's purchase

offer (subsequently withdrawn) for shares of common stock of Dictaphone Corporation. The action is brought on behalf of all persons who purchased shares of Dictaphone Corporation common stock between September 26 and October 3, 1974, the dates on which the purchase offer was announced and withdrawn, respectively, and seeks damages of "not less than \$3,000,000". Defendants, in answering the complaint, have denied all material allegations of wrongdoing. Pre-trial discovery is in progress.

ITEM 6 — Increases and decreases in outstanding equity securities:

The amount of Common Shares of the Company outstanding increased during 1975 as shown below and in note 11 of the Notes to the Consolidated Financial Statements:

Outstanding as at January 1, 1975	26,209,556
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Between January 1, and June 10, 1975 pursuant to a share exchange offer to the shareholders and share purchase warrant holders of Microsystems, and pursuant to an order of the Superior Court of the Province of Quebec in the Judicial District of Montreal obtained under the provisions of Section 136 of the Canada Corporations Act, which entitled the Company to acquire the remaining outstanding shares of Microsystems, the Company issued	259,938
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Outstanding as at December 31, 1975	<u>26,469,494</u>
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ITEM 7 — Number of equity security holders:

<u>Title of Class</u>	<u>Number of record holders as at December 31, 1975</u>
Common shares without nominal or par value	8,753

ITEM 8 — Executive officers

The officers, their ages, and offices held as at March 1, 1976 are as follows:

<u>Name</u>	<u>Age</u>	<u>Offices Presently Held</u>	<u>Officer since</u>
Clive Victor Allen	40	Vice-President and General Counsel	1974
Clarence Arthur Anderson	57	Vice-President, Patents and Licenses	1973
Walter Clark Bengier	49	Group Vice-President, Transmission	1971
Ewart Orville Bridges	53	Group Vice-President, Switching	1969
John Thomas Burnett	44	Secretary and Special Counsel	1975
John William Caffry	48	Vice-President and Controller	1975
William Connell Cawthon	53	Vice-President, Manufacturing	1973
Roy Thomas Cottier	54	Vice-President, Corporate Relations	1973
John Derek Mansell Davies	48	Vice-President, Marketing	1974
Richard Alphonse Fortier	51	Vice-President, Industrial Relations	1972
Jean-Paul Gagnon	49	Vice-President, General Administration	1975
William Leonard Glasspoole	52	Vice-President, Accounting	1969
Stuart Ward Henry	34	Treasurer	1975
Walter Frederick Light	52	President and Chief Operating Officer	1974
John Cunningham Lobb	62	Chairman of the Board and Chief Executive Officer	1971
Charles Gordon Millar	49	Executive Vice-President, Operations	1972
Jacques Ernest Ouellet	43	Vice-President, Personnel and Industrial Relations	1974
William John Pardy	54	Group Vice-President, Cable and Outside Plant	1971
William Tyrie Simpson	55	Vice-President, Cable	1973
James George Stark	47	Senior Vice-President, Finance	1974
William Allin Thompson	51	Executive Vice-President, Administration	1972
Elliott Turcot	53	Vice-President, Advanced Switching Systems	1973
David George Vice	42	Vice-President and Product Line Manager Subscriber Equipment and Cable	1974
Harry Lloyd Webster	51	Vice-President and Product Line Manager Switching and Transmission	1974
Kenneth Harold Woodley	46	Group Vice-President, Subscriber Equipment	1969

All the above-named officers of the Company have been employed in their present positions or other senior positions with the Company or one or more of its subsidiaries or associated companies during the past five years, except as follows: Mr. C.V. Allen was, prior to his appointment with the Company on May 6, 1974, associated with Allied Chemical Canada, Ltd. as Vice-President and Secretary and prior to November 1972 as Secretary; Mr. J.T. Burnett was, prior to his appointment with the Company on December 1, 1975, Group Counsel in the Law Department of the Company and prior to January 6, 1975 associated with Interconsult Corporation Limited as President and prior to September 1971, Executive Assistant to the Minister of Energy, Mines and Resources of the Government of Canada; Mr. J.W. Caffry was, prior to his appointment with the Company on August 21, 1975, associated with The Trane Company as Vice-President, Finance and prior to September 1972 associated with RCA Corporation as Staff Vice-President, Financial Planning; Mr. W.C. Cawthon was, prior to his appointment with the Company on December 6, 1973, associated with Rockwell International Corp. as Vice-President and General Manager, Textile Machinery Parts Division and prior to May 1972 acted as an industrial consultant; Mr. R.T. Cottier was, prior to his appointment with the Company on September 17, 1973, associated with W.R. Grace & Co. as Vice-President, New Enterprises Group and prior to April 1971 associated with Molson Industries Ltd. as Director, Corporate Relations; Mr. R.A. Fortier was, prior to his appointment with the Company on November 1, 1972, associated with the Pulp & Paper Industrial Relations Council as President; Mr. S.W. Henry was, prior to his appointment with the Company on September 1, 1975, associated with Crown Zellerbach Corporation as Assistant Treasurer and prior to July 1973 a Vice-President with Bank of America, New York; Mr. W.F. Light was, prior to his appointment with the Company on August 1, 1974, Executive Vice-President of Bell Canada; Mr. J.C. Lobb was, prior to his appointment with the Company on June 1, 1971, President of John C. Lobb Associates, Management Consulting firm, and, prior to 1971, a partner of Donaldson, Lufkin & Jenrette, a United States investment banking firm, President and Chief Executive Officer of Crucible Steel Corporation and Executive Vice-President of ITT; Mr. J.E. Ouellet was, prior to his appointment with the Company on August 14, 1974, associated with Canadair Limited as Vice-President, Industrial Relations and Materiel, and prior to January 1971 with General Dynamics Corporation as a Corporate Labour Relations Representative; Mr. J.G. Stark was, prior to his appointment with the Company on August 19, 1974, a General Partner of Lehman Brothers, a United States investment banking firm, and prior to March 1973 associated with Consolidated Edison Company of New York, Inc. as Vice-President and Treasurer.

On March 24, 1976 the Boards of Directors of the Company and Bell Canada made a joint announcement of changes in the management of both companies to be effective May 1, 1976. As a consequence of these changes, Mr. R.C. Scrivener will become Chairman of the Board and Chief Executive Officer of the Company, remaining a director of the Company succeeding Mr. J.C. Lobb who will continue as Chairman of the Board and Chief Executive Officer of N.T.I. and a director of the Company. Information with respect to Mr. J.C. Lobb's employment arrangements is contained in the Company's Prospectus, contained in the Post-Effective Amendment No. 1 to Registration Statement No. 2-54506 on Form S-1 filed under the Securities Act of 1933.

ITEM 9 — Indemnification of directors and officers

By-Law Thirteen of the Company enacted by the Board of Directors on October 18, 1973 and sanctioned by the shareholders on October 18, 1973 provides as follows:

"Every Director, every officer and every employee of the Company and his or her heirs, executors and administrators, and estate and effects, respectively, shall, with the consent of the Company, be indemnified and saved harmless out of the funds of the Company, from time to time and at all times, from and against (a) all costs, charges and expenses whatsoever which such Director, officer or employee sustains or incurs in or about any action, suit or proceeding which is brought, commenced or prosecuted against him or her for or in respect of any act, deed, matter or thing whatsoever, heretofore or hereafter made, done or permitted by him or her, in or about the execution of the duties of his or her office; and (b) all other costs, charges and expenses which he or she sustains or incurs in or about or in relation to the affairs thereof, except such costs, charges or expenses as are occasioned by his or her own wilful neglect or default."

The Directors and officers of the Company are covered by an insurance policy indemnifying against civil liabilities, which might be incurred by them in such capacities.

ITEM 10 — Financial statements and schedules filed

Consolidated financial statements of the Company and subsidiary companies are as listed in the Index, Page 12.

Exhibit:

1. Calculation of earnings per common share from continuing operations and from discontinued operations.

Part II

Items 11 through 15 are omitted because the Company will file a definitive proxy statement pursuant to Regulation 14A within 120 days after the close of the Company's fiscal year.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

Northern Telecom Limited
(Registrant)

Date: March 29, 1976.

By: J. G. Stark
JAMES G. STARK
Senior Vice-President, Finance

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Schedules — I, II, IV, VII, VIII, X, XI, XIV, XV, XVII, XVIII, XIX are omitted because they are inapplicable or are not required	
Notes: (1) The information required by Schedule XVI is included in note 20 of the Notes to the Consolidated Financial Statements.	
(2) Financial Statements and Schedules of Northern Telecom Limited (parent company) are omitted, as Consolidated Financial Statements are filed, the Company is primarily an operating company and all Subsidiary Companies included in the Consolidated Financial Statements do not have minority equity interests or indebtedness to any person other than the Registrant or its conso- lidated subsidiary companies in amounts which are material in relation to total consolidated assets at the date of the latest balance sheet.	

Report of independent chartered accountants

To the Board of Directors,
Northern Telecom Limited

We have examined the consolidated balance sheet of Northern Telecom Limited and subsidiary companies at December 31, 1975 and 1974, the consolidated statements of earnings, contributed surplus, retained earnings and changes in financial position of Northern Telecom Limited and subsidiary companies for the years then ended and the supporting schedules listed in the accompanying index. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion:

- (a) The accompanying consolidated balance sheet and consolidated statements of earnings, contributed surplus, retained earnings and changes in financial position of Northern Telecom Limited and subsidiary companies present fairly the consolidated financial position of Northern Telecom Limited and subsidiary companies at December 31, 1975 and 1974 and the results of their operations and the changes in their financial position for the years then ended,
 - (b) The supporting schedules present fairly the information required to be set forth therein,
- all in accordance with generally accepted accounting principles applied on a consistent basis.

(Signed) Touche Ross & Co.
Chartered Accountants.

Montreal, Quebec
Canada
February 2, 1976,
except for note 21 which is
as of March 24, 1976.

Consolidated statement of earnings (Note 2)

(year ended December 31)

	1975 (thousands of dollars)	1974 (thousands of dollars)
Sales (note 3)	\$1,018,382	\$970,711
Less: Cost of sales	738,203	725,289
Selling, general and administrative expenses	104,684	95,151
Research and development expenses	49,123	44,110
Total	892,010	864,550
Earnings from operations	126,372	106,161
Income from investments	3,756	2,945
	130,128	109,106
Interest charges:		
Long-term debt	6,891	4,605
Other	1,407	3,114
Total	8,298	7,719
Earnings before underlisted items	121,830	101,387
Provision for income taxes (note 4)	49,731	50,663
	72,099	50,724
Minority interest in net (profit) loss of subsidiary companies before extraordinary item	(1,852)	3,029
Net earnings before extraordinary item	70,247	53,753
Extraordinary item (note 5)	2,723	—
Net earnings for the year	\$ 67,524	\$ 53,753
Net earnings per common share*		
— before extraordinary item	\$2.65	\$2.05
— after extraordinary item	\$2.55	\$2.05
*Based on average number of common shares outstanding (thousands) (note 11)	26,433	26,164
Dividends declared per common share	\$0.60	\$0.525

Consolidated balance sheet

(as at December 31)

	1975	1974
	(thousands of dollars)	
Assets		
Current		
Cash and short-term investments at cost (approximates market value)	\$ 53,282	\$ 13,951
Accounts receivable		
Affiliated companies	32,691	54,296
Trade (less provision for uncollectibles \$3,715 for 1975 and \$3,229 for 1974) — schedule XII	110,413	90,604
Inventories (note 6)	229,028	254,972
Prepaid expense	6,879	5,447
Deferred income taxes	12,200	14,343
	<u>444,493</u>	<u>433,613</u>
Investment in affiliated company at cost — schedule III	12,109	8,960
Other investments — schedule III	2,204	1,697
Plant and equipment (note 7) — schedules V and VI	125,291	119,986
Deferred charges and goodwill	6,118	3,409
Total assets	<u>\$590,215</u>	<u>\$567,665</u>
Liabilities		
Current		
Notes payable (note 8)	\$ 14,803	\$ —
Accounts payable and accrued liabilities		
Affiliated companies	6,693	5,476
Employees, payroll	8,717	9,572
Vacation pay accrued	8,320	8,400
Interest accrued	877	754
Trade and other	93,722	92,613
Taxes payable	14,786	30,462
Long-term debt instalments due within one year (note 10)	6,031	3,207
	<u>153,949</u>	<u>150,484</u>
Long-term debt (note 10) — schedule IX	67,823	104,547
Deferred income taxes	23,885	23,690
Minority interest in subsidiary companies		
Capital stock	2,727	14,869
Retained earnings	1,967	(11,127)
	<u>4,694</u>	<u>3,742</u>
	<u>250,351</u>	<u>282,463</u>
Shareholders' Equity		
Capital stock (note 11)	158,982	153,754
Contributed surplus (note 12)	—	2,222
Retained earnings	180,882	129,226
	<u>339,864</u>	<u>285,202</u>
Commitments and contingencies (notes 15 and 18)		
Total liabilities and shareholders' equity	<u>\$590,215</u>	<u>\$567,665</u>

Consolidated statement of contributed surplus

(year ended December 31)

	1975 (thousands of dollars)	1974 (thousands of dollars)
Balance at beginning of year	\$ 2,222	\$ 2,866
Decrease arising on consolidation as the result of the exchange of common shares and share purchase warrants of Microsystems for common shares of the Company	(2,222)	(644)
Balance at end of year	<u>\$ —</u>	<u>\$ 2,222</u>

Consolidated statement of retained earnings

(year ended December 31)

	1975 (thousands of dollars)	1974 (thousands of dollars)
Balance at beginning of year	\$129,226	\$ 89,208
Add:		
Net earnings for the year	67,524	53,753
	196,750	142,961
Deduct:		
Cash dividends	15,868	13,735
Balance at end of year	<u>\$180,882</u>	<u>\$129,226</u>

Consolidated statement of changes in financial position

(year ended December 31)

	1975	1974
	(thousands of dollars)	
Source of funds		
Operations:		
Net earnings before extraordinary item	\$ 70,247	\$ 53,753
Items not requiring funds		
Depreciation	23,822	25,797
Deferred income taxes	195	2,732
Minority interest in net profit (loss) of subsidiary companies	1,852	(3,029)
Other	227	2,185
Total from operations	96,343	81,438
Proceeds from long-term debt	14,351	40,648
Proceeds from issuance of capital stock	5,228	779
Proceeds from sale of plant and equipment after reflecting gains and losses in net earnings	3,384	7,531
	<u>119,306</u>	<u>130,396</u>
Application of funds		
Expenditures for plant and equipment	32,511	33,728
Extraordinary item (note 5)	2,723	—
Reduction of long-term debt	51,075	5,682
Dividends	15,868	13,735
Investments in affiliated company	3,149	2,473
Other investments	507	1,164
Elimination of contributed surplus and acquisition of goodwill	5,158	644
Other	900	203
	<u>111,891</u>	<u>57,629</u>
Increase in working capital	7,415	72,767
Working capital at beginning of year	283,129	210,362
Working capital at end of year	<u>\$290,544</u>	<u>\$283,129</u>
The increase in working capital is accounted for by:		
Increase (decrease) in current assets:		
Cash and short-term investments	\$ 39,331	\$ (61,662)
Accounts receivable	(1,796)	43,811
Inventories	(25,944)	77,677
Deferred income taxes	(2,143)	3,004
Other	1,432	3,518
(Increase) decrease in current liabilities:		
Due to banks	—	28,945
Notes payable	(14,803)	—
Accounts payable and accrued liabilities	(1,514)	(10,826)
Taxes payable	15,676	(13,037)
Long-term debt due within one year	(2,824)	1,337
Increase in working capital, as above	<u>\$ 7,415</u>	<u>\$ 72,767</u>

Notes to the consolidated financial statements

1. Accounting policies

The following summary of major accounting policies is presented to assist in the interpretation of the financial statements and other data presented herein.

Principles of consolidation

The consolidated financial statements include the accounts of Northern Telecom Limited (the "Company") and all subsidiary companies. When stock ownership and control of subsidiary companies is acquired, the income of these companies is included in the consolidated financial statements only to the extent of the income earned since the date of acquisition of control. The subsidiary companies are:

	Ownership
Nedco (1975) Ltd. (formerly Microsystems International Limited)	57.1% (1)
Nedco Ltd. (incorporated in 1972)	100%
Nevron Industries Company Limited (incorporated in 1972)	100%
Northern Electric Caribbean Limited, Jamaica	100%
Northern Electric Company (Ireland) Limited (incorporated in 1973)	100%
Northern Electric Telekomunikasyon A.S., Republic of Turkey	51%
Northern Telecom, Inc., U.S.A. (incorporated in 1971)	100%
Northern Electric (Europe) N.V., The Netherlands (incorporated in 1974)	100%
Northern Electric (International) N.V., The Netherlands (incorporated in 1974)	100%

(1) The remaining 42.9% is owned by Nedco Ltd.

Translation of foreign currencies

The accounts of the foreign subsidiary companies have been translated into Canadian dollars at exchange rates prevailing at the balance sheet dates for working capital items, at exchange rates prevailing at the respective transaction dates for non-current assets and liabilities (and related depreciation and amortization) and at average exchange rates prevailing during the years for income and expenses.

Depreciation

Depreciation is calculated on the straight line method using rates based on the expected useful lives of the respective assets as follows:

Buildings 2½-3½%; machinery 10-16⅔%; tools 15-33⅓%; and furniture and fixtures 10%.

Research and development

Research and development expenses are charged to earnings in the years in which they are incurred.

Income taxes

The Company and its subsidiary companies use the tax allocation basis of accounting for income taxes. Reductions in income taxes relating to losses carried forward in subsidiary companies are not taken up in the accounts until the date of their realization is determined.

Maintenance and repairs

The cost of maintenance and repairs of plant and equipment is charged to earnings in the years incurred.

Notes to the consolidated financial statements (continued)*Inventories*

Inventories are valued at the lower of cost (calculated generally on a first-in, first-out basis) and net realizable value. The cost of finished goods and work-in-process inventories is comprised of material, labour and manufacturing overhead.

Goodwill

Goodwill represents the unamortized excess of the acquisition costs over the net assets of subsidiary companies. Goodwill is amortized over periods not exceeding 40 years.

2. Disposal of segment of business

The extraordinary item of \$2,723,000 in 1975 (See Note 5) represents a provision for costs of terminating the semiconductor business of Microsystems. This presentation is in accordance with Canadian reporting practices.

Under U.S. practices the disposal of a segment of a business requires different reporting; however, net earnings and net earnings per common share are identical under both Canadian and U.S. reporting practices. The classification of this item as a "disposal of a segment of a business" under U.S. reporting practices would have resulted in the following revised figures in the consolidated statement of earnings:

	1975	1974
Sales as reported	\$1,018,382,000	\$970,711,000
Less: Sales of discontinued operations	4,850,000	23,712,000
Sales of continuing operations	\$1,013,532,000	\$946,999,000
Net earnings from continuing operations	\$ 71,956,000	\$ 62,158,000
Discontinued operations (net of minority interest):		
Loss from operations of discontinued business	1,709,000*	8,405,000
Loss on termination of discontinued business (net of income taxes of \$2,100,000)	2,723,000	—
	4,432,000	8,405,000
Net earnings	\$ 67,524,000	\$ 53,753,000
Net earnings per share (after extraordinary item):		
From continuing operations	\$2.72	\$2.38
From discontinued operations (losses)	(0.17)	(0.33)
Net earnings	\$2.55	\$2.05

*Net of income taxes of \$1,131,000, see note 1 — income taxes.

3. Sales to affiliated companies

Sales to Bell Canada in 1975 were \$451,454,000 (1974 — \$461,883,000) and to telephone subsidiaries of Bell Canada in 1975 were \$59,484,000 (1974 — \$60,814,000).

Notes to the consolidated financial statements (continued)**4. Provision for income taxes**

A reconciliation of the statutory income tax rate in Canada to the effective income tax rate is as follows:

	1975	1974
Statutory income tax rate	50.2%	52.5%
i) Reduction of Canadian federal taxes applicable to manufacturing profits	(7.9)	(9.2)
ii) Net loss of subsidiary companies (including investment write-off) not allowed as an expense for tax	—	8.4
iii) Difference due to minority interest in net profit (loss) of subsidiary companies	.8	(1.5)
iv) Other miscellaneous differences between the calculations of taxable income and book income before taxes	(2.0)	(1.7)
	<u>41.1</u>	<u>48.5</u>
Extraordinary item	.3	—
Effective income tax rate	<u>41.4%</u>	<u>48.5%</u>

Details of provision for income taxes are as follows:

	1975	1974
Current	\$ 47,393,000	\$ 50,935,000
Deferred	2,338,000	(272,000)
Total provision for income taxes	<u>\$ 49,731,000</u>	<u>\$ 50,663,000</u>

5. Extraordinary item

Provision for costs of terminating the semiconductor business of Microsystems, less applicable income taxes of \$2,100,000 and minority interest of \$177,000	<u>\$ 2,723,000</u>
---	---------------------

6. Inventories

At December 31, inventories consisted of the following:

	1975	1974	1973
Raw materials	\$ 24,599,000	\$ 36,678,000	\$ 15,145,000
Work-in-process	110,898,000	129,670,000	100,868,000
Finished goods	93,531,000	88,624,000	61,282,000
	<u>\$229,028,000</u>	<u>\$254,972,000</u>	<u>\$177,295,000</u>

Notes to the consolidated financial statements (continued)**7. Plant and equipment**

At December 31, plant and equipment consisted of the following:

	1975	1974
Cost		
Land	\$ 6,859,000	\$ 6,947,000
Buildings	58,739,000	61,109,000
Machinery and equipment	224,479,000	210,161,000
	<u>290,077,000</u>	<u>278,217,000</u>
Less: Accumulated depreciation		
Buildings	18,637,000	23,638,000
Machinery and equipment	146,149,000	134,593,000
	<u>164,786,000</u>	<u>158,231,000</u>
	<u>\$125,291,000</u>	<u>\$119,986,000</u>

8. Notes payable

Notes payable (payable within 45 days) consisted of the following:

	1975	1974
Amount outstanding at December 31	\$ 14,803,000	\$ nil
Maximum amounts outstanding at any month-end during the year ended December 31	\$ 20,783,000	\$ nil
Average amounts outstanding during the year ended December 31	\$ 12,058,000	\$ nil
Weighted average annual interest rates during the year ended December 31	8.18%	nil %
Weighted average interest rates at December 31	9.31%	nil %

9. Unused bank lines of credit

At December 31, 1975, the Company and certain subsidiary companies had unused bank lines of credit, generally available at the prime bank rate of interest, of approximately \$55,851,000.

10. Long-term debt

	1975	1974
Sinking fund debentures		
4¾% due November 1, 1976	\$ 4,958,000	\$ 4,958,000
5¾% 1962 Series due December 15, 1982	10,969,000	10,984,000
6½% Series C due April 15, 1986	10,516,000	11,073,000
9¾% Series D due April 30, 1990	32,797,000	33,525,000
	<u>59,240,000</u>	<u>60,540,000</u>
Bank loans	14,614,000	40,151,000
Other	—	7,063,000
	<u>73,854,000</u>	<u>107,754,000</u>
Less: Amount included in current liabilities	6,031,000	3,207,000
	<u>\$ 67,823,000</u>	<u>\$104,547,000</u>

At December 31, 1975, the amount of long-term debt payable, including sinking fund requirements, in the years 1976 through 1980, was \$6,031,000, \$3,035,000, \$17,388,000, \$2,950,000 and \$2,950,000 respectively.

Notes to the consolidated financial statements (continued)**11. Capital stock**

Authorized — 39,000,000 common shares without nominal or par value for an aggregate value not exceeding \$225,000,000.

	1975		1974	
	Shares	\$	Shares	\$
Outstanding:				
January 1	26,209,556	\$153,754,000	26,162,500	\$152,975,000
Issued during the year	259,938	5,228,000	47,056	779,000
December 31	<u>26,469,494</u>	<u>\$158,982,000</u>	<u>26,209,556</u>	<u>\$153,754,000</u>

On December 9, 1974, the Company made an offer to exchange its common shares with the holders of common shares and share purchase warrants of Microsystems, on the basis of one share of the Company for seven shares or fifteen share purchase warrants of Microsystems. Under such offer, 47,056 common shares for an aggregate value of \$779,000 were issued in 1974 and 259,938 common shares for an aggregate value of \$5,228,000 were issued in 1975.

Earnings per share calculations are based on the average number of shares outstanding during each year.

12. Contributed surplus

Contributed surplus at December 31, 1974 represented the net excess amount paid by minority shareholders of Microsystems over their proportional interest acquired on the issue of common shares. Contributed surplus was reduced in 1974 by \$644,000 and was eliminated in 1975 as a result of the exchange of Microsystems' common shares and share purchase warrants for common shares of the Company at exchange prices in excess of the shareholders' equity per share at dates of issue.

13. Incentive remuneration plan

In 1972, the Company established an incentive remuneration plan to grant awards to officers and other key employees who are considered to have made an outstanding contribution to the success of the Company. Amounts charged to earnings for the years ended December 31, 1975 and 1974 were \$1,800,000 and \$3,600,000 respectively.

14. Plan for employees' pensions

The Company and certain subsidiary companies have non-contributory plans which provide for service pensions based on length of service and rates of pay. The last actuarial reviews of December 31, 1973 indicated that all vested benefits were fully funded and that on a winding-up basis no unfunded liability existed in respect of past service pension costs.

The cost of the plans charged to earnings for the years ended December 31, 1975 and 1974 was \$20,368,000 and \$19,435,000 respectively.

15. Lease commitments

The Company and its subsidiary companies are party to certain non-cancellable leases for property and equipment used in the performance of their business. At December 31, 1975 the aggregate minimum annual rental commitments for all such leases, and the commitments for non-capitalized financing leases included therein, were approximately as follows:

Year	Aggregate	Financing
1976	\$ 8,765,000	\$ 3,773,000
1977	8,092,000	3,390,000
1978	6,420,000	3,029,000
1979	5,629,000	2,712,000
1980	3,713,000	2,299,000
1981-85	10,870,000	8,962,000
1986-90	4,041,000	3,828,000
1991-95	1,143,000	986,000

Total rental expenses amounted to \$8,817,000 for 1975 and \$6,185,000 for 1974.

16. Trust agreement restrictions

Under the terms of the trust agreement relating to the debentures of the Company, there are certain restrictions with respect to the payment of dividends (other than stock dividends) and the purchase, redemption or reduction of any of its shares. As at December 31, 1975, \$174,127,000 of shareholders' equity was free from these restrictions.

17. Canadian anti-inflation legislation

The Company and its Canadian subsidiary companies are subject to legislation which became effective October 14, 1975 and limits increases in sale prices, remuneration, net earnings and dividends. Based on preliminary compliance calculations, it is management's opinion that the legislation has been adhered to from the effective date.

18. Litigation

Among legal actions pending against the Company are the following:

One suit instituted in 1971 claims \$9,200,000 in lost commissions, loss of profits and damages arising from the Company's unaccepted tender for installation of a microwave system in Libya. A second suit instituted in 1974 claims \$8,960,000 in lost commissions, damages and finder's and standby fees arising essentially from the Company's unsuccessful attempt to secure a contract for the installation of telephone lines and equipment in Peru. Litigation counsel to the Company in these suits is of the opinion that there are valid substantive defences.

A third suit instituted in 1974 as a class action alleges violation of the United States securities laws in the Company's purchase offer for shares of Dictaphone Corporation, and seeks damages of "not less than \$3,000,000". The Company has denied all material allegations of wrongdoing.

Based on the foregoing, no provision has been established for these actions.

19. Translation of foreign currencies

The aggregate amount of exchange adjustments included in the determination of net earnings amounted to less than 1% of such net earnings for 1975 and 1974.

20. Supplementary information — consolidated statement of earnings

	Year ended December 31,	
	1975	1974
a) Maintenance and repairs	\$ 17,314,000	\$ 17,631,000
b) Depreciation	\$ 23,822,000	\$ 25,797,000
c) Taxes other than income taxes		
Property and business	\$ 6,022,000	\$ 4,641,000
Payroll	7,827,000	7,398,000
Total	\$ 13,849,000	\$ 12,039,000

21. Subsequent events

Effective March 1, 1976 the name of the Company was changed from Northern Electric Company, Limited to Northern Telecom Limited. This change was ratified by the shareholders at a special general meeting held on February 25, 1976 and subsequently confirmed by Supplementary Letters Patent.

The Company has applied to the Anti-Inflation Board for an extension of the delay to file its base period report for prices, profits and dividends.

Schedule III — Sheet 1
Consolidated

Northern Telecom Limited and subsidiary companies

Schedule III — Investments in and dividends received from affiliates and other persons

Year 1975

(thousands of dollars)

Name of issuer and description of investment (1)	Balance at beginning of year		Additions		Deductions		Balance at end of year		Dividends received during the year
	(2) %	Number of shares or units. Principal amount of bonds and notes	Amount	Amount	Amount	(2) %	Number of shares or units. Principal amount of bonds and notes	Amount	
Affiliated Company									
Bell-Northern Research Ltd.									
Common shares (3)	49	49,000	\$ 49	\$ —	\$ —	49	49,000	\$ 49	\$ —
Income debentures	—	\$8,911,000	8,911	3,149	—	—	\$12,060,000	12,060	—
Total — Affiliated Company			8,960	3,149	—			12,109	—
Other									
Monolithic Memories, Inc.									
Common shares	12.4	160,000	633	—	—	12.4	160,000	633	—
Taurus Oil Limited									
Common shares	7.3	100,000	—	—	—	7.3	100,000	—	—
Inselek Inc.									
Convertible preferred shares Class A, Series 1	100	450,000	—	—	—	100	450,000	—	—
Telephonax Inc.									
Convertible preferred shares	11.1	8,333	—	—	—	11.1	8,333	—	—
Dictaphone Corp.									
Common shares	3.5	137,200	1,064	—	—	3.5	137,200	1,064	84
Computer Transmission Corp.									
Common shares	—	—	—	507	—	9.0	33,334	507	—
Total — Other			1,697	507	—			2,204	84
Total			\$10,657	\$3,656	\$ —			\$14,313	\$ 84

(1) None of these investments are accounted for on the "equity" method.

(2) Percentage of ownership of each class of shares.

(3) Bell Canada also owns 51% of the common shares of Bell-Northern Research Ltd.

Schedule III — Sheet 2
Consolidated

Northern Telecom Limited and subsidiary companies

Schedule III – Investments in and dividends received from affiliates and other persons

Year 1974

(thousands of dollars)

Name of Issuer and description of investment (1)	Balance at beginning of year		Additions	Deductions	Balance at end of year		Dividends received during the year
	(2) %	Number of shares or units, Principal amount of bonds and notes	Amount	Amount	(2) %	Number of shares or units, Principal amount of bonds and notes	Amount
Affiliated Company							
Bell-Northern Research Ltd.							
Common shares (3)	49	49,000	\$ —	\$ —	49	49,000	\$ —
Income debentures	—	\$6,438,000	2,473	—	—	\$8,911,000	—
Total — Affiliated Company			<u>2,473</u>	<u>—</u>		<u>8,960</u>	<u>—</u>
Other							
Monolithic Memories, Inc.							
Common shares	12.4	160,000	—	767 (4)	12.4	160,000	—
Taurus Oil Limited							
Common shares	9.8	100,000	—	100 (4)	7.3 (5)	100,000	—
Inselek Inc.							
Convertible preferred shares Class A, Series 1	100	450,000	—	750 (4)	100	450,000	—
Telephonax Inc.							
Convertible preferred shares	—	—	100	100 (4)	11.1	8,333	—
Dictaphone Corp.							
Common shares	—	—	1,064	—	3.5	137,200	40
Total — Other			<u>1,164</u>	<u>1,717</u>		<u>1,697</u>	<u>40</u>
Total			<u>\$8,737</u>	<u>\$1,717</u>		<u>\$10,657</u>	<u>\$ —</u>

(1) None of these investments are accounted for on the "equity" method.

(2) Percentage of ownership of each class of shares.

(3) Bell Canada also owns 51% of the common shares of Bell-Northern Research Ltd.

(4) Write-down of investments to reflect decline in value.

(5) Additional capital was contributed by other investors during the year.

Schedule V — Sheet 1**Consolidated**

Northern Telecom Limited and subsidiary companies

Schedule V – Property, plant and equipment

(thousands of dollars)

Year 1975

Classification	Balance at beginning of year	Additions at Cost	Retirements or Sales	Other Changes Add (Deduct)	Balance at end of year
Land	\$ 6,947	\$ 425	\$ 513	\$ —	\$ 6,859
Buildings*	61,109	5,622	7,992	—	58,739
Machinery	101,950	7,600	6,499	—	103,051
Tools	74,970	7,814	3,585	—	79,199
Furniture & Fixtures	26,977	2,950	1,807	—	28,120
Transportation Equipment	6,264	8,100	255	—	14,109
Total	\$278,217	\$ 32,511	\$ 20,651	\$ —	\$290,077

*Includes leasehold improvements

Schedule V — Sheet 2**Consolidated**

Northern Telecom Limited and subsidiary companies

Schedule V – Property, plant and equipment

(thousands of dollars)

Year 1974

Classification	Balance at beginning of year	Additions at Cost	Retirements or Sales	Other Changes Add (Deduct)	Balance at end of year
Land	\$ 6,247	\$ 745	\$ 104	\$ 59	\$ 6,947
Buildings*	60,565	7,724	7,244	64	61,109
Machinery	98,533	10,032	6,664	49	101,950
Tools	66,705	9,867	1,843	241	74,970
Furniture & Fixtures	24,939	3,671	1,763	130	26,977
Transportation Equipment	4,558	1,689	(17)	—	6,264
Total	\$261,547	\$ 33,728	\$ 17,601	\$ 543	\$278,217

*Includes leasehold improvements

Schedule VI — Sheet 1
Consolidated

Northern Telecom Limited and subsidiary companies

Schedule VI – Accumulated depreciation
(thousands of dollars)

Year 1975

Description	Balance at beginning of year	Additions at Cost	Retirements or Sales	Other Changes Add (Deduct)	Balance at end of year
Buildings*	\$ 23,638	\$ 1,939	\$ 6,940	\$ —	\$ 18,637
Machinery	63,632	10,350	5,751	—	68,231
Tools	50,046	8,483	2,897	—	55,632
Furniture & Fixtures	17,577	1,913	1,457	—	18,033
Transportation Equipment	3,338	1,137	222	—	4,253
Total	\$158,231	\$ 23,822	\$ 17,267	\$ —	\$164,786

*Includes leasehold improvements

Schedule VI — Sheet 2
Consolidated

Northern Telecom Limited and subsidiary companies

Schedule VI – Accumulated depreciation
(thousands of dollars)

Year 1974

Description	Balance at beginning of year	Additions at Cost	Retirements or Sales	Other Changes Add (Deduct)	Balance at end of year
Buildings*	\$ 23,183	\$ 3,143	\$ 2,517	\$ (171)	\$ 23,638
Machinery	57,625	10,980	4,907	(66)	63,632
Tools	42,267	8,701	615	(307)	50,046
Furniture & Fixtures	16,991	2,053	1,387	(80)	17,577
Transportation Equipment	2,438	920	17	(3)	3,338
Total	\$142,504	\$ 25,797	\$ 9,443	\$ (627)	\$158,231

*Includes leasehold improvements

Schedule IX
Consolidated

Northern Telecom Limited and subsidiary companies

Schedule IX – Bonds, mortgages & similar debt at December 31, 1975
(thousands of dollars)

Name of issuer and title of issue	Amount authorized by indenture	Amount issued and not retired or cancelled (note 1)	Amount included under caption "Long-term debt" balance sheet (notes 2 and 5)	Amount held by affiliates included in consolidated statements (note 3)
Parent company				
Northern Telecom Limited				
Sinking Fund Debentures				
4¼% due November 1, 1976	\$ 20,000	\$ 4,958	\$ 4,958	\$ —
5¼% 1962 Series due December 15, 1982	20,000	10,969	10,969	—
6½% Series C due April 15, 1986	15,000	10,516	10,516	—
9¼% Series D due April 30, 1990	40,000	32,797	32,797	—
	<u>\$ 95,000</u>	<u>59,240</u>	<u>59,240</u>	<u>—</u>
Subsidiary companies				
Bank loans (note 4)		14,614	14,614	—
Total		<u>\$ 73,854</u>	<u>\$ 73,854</u>	<u>\$ —</u>

Notes:

- (1) No long-term debt is held by or for the account of the issuer.
- (2) The major portion of long-term debt is unsecured.
- (3) No long-term debt is held by affiliates not included in consolidated statements.
- (4) a) \$14,351,000 due September 14, 1978 with interest payable at prime bank rate to September 1977 and at ¼% above prime bank rate from September 1977 to 1978.
b) \$263,000 due in equal annual instalments to December 31, 1978 with interest payable at ¾% above prime bank rate.
- (5) Long-term debt of \$73,854,000 includes instalments due within one year, amounting to \$6,031,000.

Schedule XII
Consolidated

Northern Telecom Limited and subsidiary companies

Schedule XII – Valuation and qualifying accounts & reserves
Provision for Uncollectibles

(thousands of dollars)

Description	Balance at beginning of year	Additions — Charged to cost and expenses	Deductions (a)	Balance at end of year
Year 1975	\$ 3,229	\$ 921	\$ 435	\$ 3,715
Year 1974	3,508	1,149	1,428	3,229

(a) Amounts written off, less recoveries.

Schedule XIII
Consolidated

Northern Telecom Limited and subsidiary companies

Schedule XIII – Capital stock and minority interest in capital stock of subsidiaries
at December 31, 1975

Name of issuer and title of issue	Number of shares authorized by charter	Number of shares issued and not retired or cancelled (Note a)	Shares outstanding as shown on or included in related balance sheet under caption "CAPITAL STOCK" Number	Shares outstanding as shown on or included in related balance sheet under caption "CAPITAL STOCK" (\$'000)	Number of shares held by affiliates included in consolidated statements (Note b)	Number of shares reserved for options, warrants, conversions and other rights — Directors, officers and employees Other
Northern Telecom Limited						
No par value common shares	39,000,000	26,469,494	26,469,494	\$ 158,982	—	—
Subsidiary Companies:						
Northern Electric Telekomunikasyon A.S.						
No par value common stock	3,900	3,900	1,911	\$ 2,714	1,989	—
Zenith Electric Supply Limited						
No par value common stock	1,750,000	1,273,254	13,228	13	1,260,026	—
				<u>\$ 2,727</u>		

Notes: (a) None of these shares is held by or for the account of the issuer thereof.
(b) None of these shares is held by affiliates not included in consolidated statements.

Exhibit 1

Northern Telecom Limited and subsidiary companies

Calculation of earnings per common share

	Year ended December 31,				
	1975	1974	1973	1972	1971
Net earnings before extraordinary items	\$70,247	\$53,753	\$32,030	\$20,295	\$12,611
Extraordinary items	(2,723)	—	—	(197)	—
Net earnings	<u>\$67,524</u>	<u>\$53,753</u>	<u>\$32,030</u>	<u>\$20,098</u>	<u>\$12,611</u>
Average common shares outstanding	26,433	26,164	23,671	23,562	23,562
Net earnings per common share					
— before extraordinary items	\$2.65	\$2.05	\$1.35	\$0.86	\$0.54
— after extraordinary items	<u>\$2.55</u>	<u>\$2.05</u>	<u>\$1.35</u>	<u>\$0.85</u>	<u>\$0.54</u>
Net earnings from continuing operations	<u>\$71,956</u>	<u>\$62,158</u>	<u>\$38,071</u>	<u>\$22,631</u>	<u>\$16,479</u>
Discontinued operations (net of minority interest)					
— loss from operations of discontinued operations	1,709(2)	8,405	6,041	2,533	3,868
— loss on termination of discontinued operations (net of income taxes of \$2,100)	<u>2,723</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net earnings	<u>4,432</u>	<u>8,405</u>	<u>6,041</u>	<u>2,533</u>	<u>3,868</u>
Average common shares outstanding	<u>\$67,524</u>	<u>\$53,753</u>	<u>\$32,030</u>	<u>\$20,098</u>	<u>\$12,611</u>
Net earnings per common share (after extraordinary items)	26,433	26,164	23,671	23,562	23,562
— from continuing operations	\$2.72	\$2.38	\$1.61	\$0.97	\$0.70
— from discontinued operations (losses)	<u>\$ (0.17)</u>	<u>\$ (0.33)</u>	<u>\$ (0.26)</u>	<u>\$ (0.12)</u>	<u>\$ (0.16)</u>
— net earnings	<u>\$2.55</u>	<u>\$2.05</u>	<u>\$1.35</u>	<u>\$0.85</u>	<u>\$0.54</u>

Notes: (1) All figures expressed in thousands, except for earnings per common share.

(2) Net of income taxes of \$1,131.

Report to shareholders

1975 was a difficult year for the telecommunications industry throughout the world. While Northern Telecom did better than its competitors it did not completely avoid the impacts of a general world recession that has not yet disappeared.

The economic crisis set off by sharply higher oil prices came on top of already unsettled conditions. Some of our major customers have had difficulty in obtaining adequate rates; others have had lengthy labor disputes. Because of a very strong first half we are still able to report record sales and earnings. Much of the progress achieved in 1975 was the direct result of the outstanding effort and dedicated performance of our employees. They deserve a vote of thanks from shareholders for a job well done.

Operating revenues and earnings were again at record levels. Consolidated sales of the company and its subsidiaries were \$1,018,382,000, an increase of 5 percent over the 1974 record sales of \$970,711,000.

Consolidated net earnings were \$67,524,000 compared with \$53,753,000 in 1974, an increase of 26 percent. Earnings per share were \$2.55 compared with \$2.05 in the previous year.

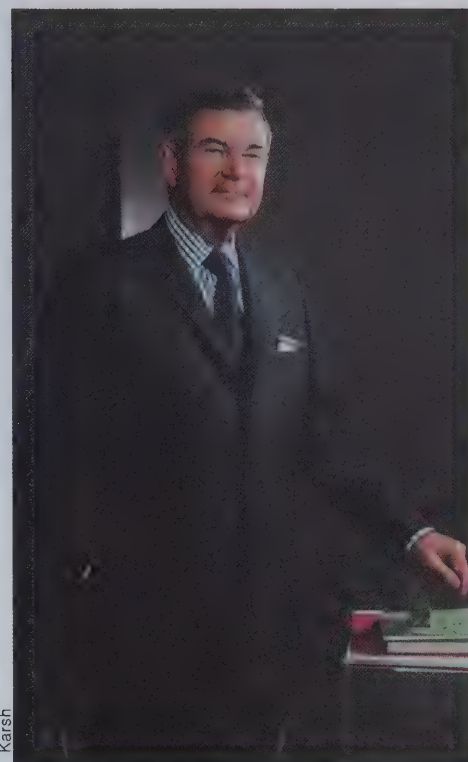
Wider Distribution of Shares

In October, Bell Canada made a secondary offering of 5,250,000 Northern Telecom common shares. Approximately 2,250,000 of these shares were sold in the United States, the remainder in Canada and Europe. With this issue, and assuming that all outstanding warrants are exercised, Bell Canada will retain approximately 62 percent of the outstanding common shares of Northern Telecom. The stock is now listed on the New York Stock Exchange, as well as stock exchanges in Montreal, Toronto and Vancouver.

Broad public ownership will be beneficial to Northern Telecom. It opens up new opportunities for growth and is important to employee morale. Financial flexibility is assured. The relationship between Bell Canada and Northern Telecom is unique, yet clearly beneficial to our situation. We have the benefits of an integrated operating-manufacturing-marketing-research complex, with independence in financial and operating matters.

Important Factors in Earnings

Telecommunications is a complex business and Northern Telecom participates in every phase, from electronic platforms for satellites and computer-controlled switching systems to wire and cable. Advanced competitive designs coupled with good manufacturing-engineering and high-quality manufacturing,



John C. Lobb, Chairman of the Board and Chief Executive Officer

combine to give us excellent growth in electronic systems for central office switching, transmission and electronic private automatic branch exchanges (EPABX).

In the United States we have a large share of the EPABX market. We have a growing share of the stored-program controlled switching business in the independent companies (those not affiliated with, or subsidiaries of, American Telephone & Telegraph Company). In Canada, our electronic SP-1 central office switching system is operating in every province. There are now more than 600,000 lines of SP-1 systems in service in North America and over 1.2 million lines have been sold.

Transmission products have become one of our fastest-growing businesses and appear to offer excellent possibilities in the export markets. We have a wide range of new electronic products that has been well received by our customers.

Effects of Inflation

Inflation has hurt all industry. Wage costs are a good example in Northern Telecom. In 1973 the company entered into labor agreements across Canada guaranteeing a cost-of-living adjustment (COLA). The cost of these additions to normal wages have increased dramatically over the past three years: 1973, \$5.5 million; 1974, \$18.8 million and 1975, \$27.3 million.



Walter F. Light, President and Chief Operating Officer

Fueled by a worsening inflation, our total employment costs have risen from \$222.2 million in 1972 when we had 20,800 employees to \$370 million in 1975 when we had 23,700 employees. Only sharply expanding world markets and new factories outside Canada have enabled us to offset such inflationary pressures.

The cost of fuel oil, gas, electric power and other basics have continued to rise by 10 percent to 20 percent annually. In contrast, our own selling prices have been increasing by less than six percent a year. They have been held down by cost reduction programs, better designs and improved operating efficiency. We believe that this strategy is sound because, by maintaining telecommunications equipment as an outstanding value, we encourage the health of the total telecommunications business of which we are a part — telephone rates are kept down and sales increased.

Growing Spread Between U.S. and Canadian Wages

For decades Canadian wages were below American wages — a relationship that could be expected, given the relative sizes and productivity of the two economies. By year-end, average wages in five of our U.S. factories were running below those being paid in our plants in Ontario and Quebec for identical work.

The Canadian government is now attempting a form of wage and price control. It is too early to foresee with any degree of certainty the effects of this program. Drastic changes in fiscal and monetary policies and specifically, cuts in government spending, will be required before inflation is really curtailed.

Expansion

Regardless of the recession, inflation and regulatory problems of customers, we continued to expand in 1975. The world demand for voice and data service continues to grow. Postal service throughout the world is not good, shows no signs of improving and is becoming increasingly more expensive; this stimulates all forms of telecommunications.

We added five new factories in Canada in 1975, completed our decentralization move out of obsolete Montreal facilities into four new plants, and expanded east and west across Canada to give better service to our customers.

Two new plants were added in Calgary, Alberta and one plant each in Regina, Saskatchewan, Winnipeg, Manitoba, and LaSalle, Quebec. In December we announced our intention to almost double in 1976, the size of the new Regina plant, so that we could begin the manufacture of cable products in Saskatchewan. We now have 24 manufacturing plants in Canada.

In the United States we moved into our sixth plant — a 110,000-square-foot facility in Nashville, Tennessee. This plant will be the U.S. center for telephone sets and new electronic business communications equipment. In it we will have manufacturing, order entry, customer service and marketing, some product development and warehousing — all under the one roof. Plant and equipment investment is estimated at \$3.2 million.

We have approved a \$2.3 million program to expand the capacity to manufacture at Mountain View, California our new electronic digital PABX, SL-1. The SL-1 is being well received by the North American and European telephone industries.

A second U.S. subsidiary, Northern Electric Export Corporation, was created to further increase sales to Latin American countries.

We obtained a master agreement from the Puerto Rico Telephone Company for a number of SP-1 central office switching exchanges. Six systems have already been shipped. This contract will extend over several years and its total value should exceed \$100 million. Most of the final manufacturing and testing is being done in the Butner, North Carolina plant, with many components being supplied from Canada.

The U.S. operations are now at a sales level of \$100 million annually and will continue to be a major growth area.

International

In Turkey, where we manufacture all that nation's switching equipment, we are doubling production to meet the requirements of a new contract. The Turkish government owns 49 percent of this venture; we own 51 percent of the shares. Employment now totals more than 1,400 and is growing. Only 14 Canadians are left in management positions.

Modest expansion took place in our plants in Galway, Ireland and Penang, Malaysia. Both operations have been held back by the slow world demand, but have improved outlooks for 1976.

Subsidiaries were incorporated in England and France: Northern Electric of Canada (U.K.) Ltd., headquartered near London and Northern Electric France S.A. in Paris.

Microsystems

The manufacturing operations of Microsystems International Limited came to an end in 1975. The plant was closed, the building sold to Bell-Northern Research Ltd., the balance of the loan by the federal government to Microsystems was repaid and all technology and patents derived from government funding were assigned to the federal government. We are gradually selling off Microsystems equipment. Adequate provision for all losses has been made in the 1975 accounts.

Holders of Microsystems common shares and share purchase warrants were given the opportunity to exchange their holdings for Northern Telecom common stock on a ratio of seven Microsystems shares or 15 Microsystems warrants for one Northern Telecom share. The company acquired all the Microsystems shares.

The venture demonstrated the hazards of entering a volatile, highly competitive, international technical market from a Canadian base, without a Canadian market large enough to support the business.

Microsystems acquired the assets and assumed the liabilities of another Northern Telecom subsidiary, Nedco Limited, which business is now being conducted under the name of Nedco (1975) Limited.

New Corporate Name

On February 25, 1976, the shareholders, at a special meeting in Montreal, approved a change in the corporate name from Northern Electric Company, Limited to Northern Telecom Limited. The new name became effective on March 1. With this change, the company, for the first time in its history, is able to market its products throughout the world under the same corporate name.

The name, Northern Telecom, more accurately and more effectively describes the types of products we produce and the worldwide industry we serve.

The change in corporate name is the single most important marketing-strategy move the company could make. By it, we are able to introduce into all international markets the engineering and technical strengths and reputation of the parent company.

A change in corporate identification is a major task. It will be some time before all our products, packaging, factories and offices throughout the world carry the new corporate name. The names of subsidiaries, which include Northern Electric as part of their corporate names, are being changed as local laws permit.

A new corporate logotype has been developed and is shown in the margin, and on the back cover.

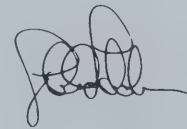
Outlook for 1976 and Beyond

Although there are uncertainties arising from the Canadian wage and price control program and the ability of many telephone companies to obtain adequate rate structures, we look for a general improvement in 1976. The U.S. economy has turned upwards. The world market for telecommunications generally is improving and our salesmen and representatives around the world are optimistic.

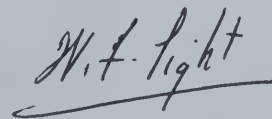
The telecommunications world is going digital. Central office switching, transmission, PABXs and even telephone sets will be digital in a few years.

Northern Telecom pioneered an operating digital transmission system, the LD-4, in 1975. This has made a tremendous improvement in data transmission. We introduced the digital SL-1 EPABX late in 1975. We hope to introduce in 1977, the first of a new family of digital central offices, called Digital Multiplex Switching (DMS). Additional systems will be added until 1980, when we expect commercial deliveries of a full line of digital offices.

The change from analog to digital will be as revolutionary as the change from electro-mechanical to electronic. Better service, lower operating expense, and sharply reduced capital outlay achieved through the use of technology which can withstand inflationary pressures, will give all the telephone companies in the world the incentive to build entire digital networks in the early 1980s. Northern Telecom will have a most extensive digital product line, backed by excellent research and proven performance by Bell Canada in the efficient use of this new technology to reduce operating costs and to provide new services for voice, data and video transmission.



John C. Lobb, Chairman of the Board and Chief Executive Officer



Walter F. Light, President and Chief Operating Officer

March 1, 1976.



Directors and officers

Directors

Ewart O. Bridges
Group Vice-President, Switching

*A. Jean de Grandpré, Q.C.
President
Bell Canada

Georges L. Demers, Q.C.
Senior Partner
Lesage, Demers, Lesage & Brochu

J. Douglas Gibson, O.B.E.
Economic Consultant

Robert S. Hurlbut
President
General Foods, Limited

*Herbert H. Lank
Director
Du Pont of Canada Limited

*Walter F. Light
President and Chief Operating Officer

*John C. Lobb
Chairman of the Board and
Chief Executive Officer

Vernon O. Marquez
Consultant

Charles G. Millar
Executive Vice-President, Operations

*J. Angus Ogilvy, Q.C.
Senior Partner
Ogilvy, Cope, Porteous, Montgomery,
Renault, Clarke & Kirkpatrick

Charles Perrault
President
Perconsult Limited
Consultants

*Gérard Plourde
Chairman of the Board and
Chief Executive Officer
U.A.P. Inc.

*Robert C. Scrivener
Chairman of the Board and
Chief Executive Officer
Bell Canada

James C. Thackray
Executive Vice-President, Operations
Bell Canada

W. Maurice Young
Chairman of the Board and
Chief Executive Officer
Finning Tractor & Equipment
Company, Limited

*Members of the Executive Committee

Officers

Chairman of the Board and
Chief Executive Officer

John C. Lobb

President and Chief Operating Officer
Walter F. Light

Executive Vice-President, Operations
Charles G. Millar

Senior Vice-Presidents
James G. Stark
Finance

W. A. Thompson
Administration

Group Vice-Presidents
Ewart O. Bridges
Switching

William J. Pardy
Cable, Transmission and Outside Plant

Kenneth H. Woodley
Subscriber Equipment

Vice-Presidents
Clive V. Allen
General Counsel

Clare A. Anderson
Patents and Licences

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Manufacturing

Roy T. Cottier
Corporate Relations

J. D. M. Davies
Marketing

Richard A. Fortier
Industrial Relations

Jean-Paul Gagnon
General Administration

W. Leonard Glasspoole
Accounting

Jacques E. Ouellet
Personnel and Industrial Relations

William T. Simpson
Cable

Elliott Turcot
Advanced Switching

David G. Vice
Product Line Manager,
Subscriber Equipment and Cable

H. Lloyd Webster
Product Line Manager,
Switching and Transmission

Secretary
John T. Burnett

Treasurer
Stuart W. Henry

Northern Telecom R&D — Organized for change and innovation

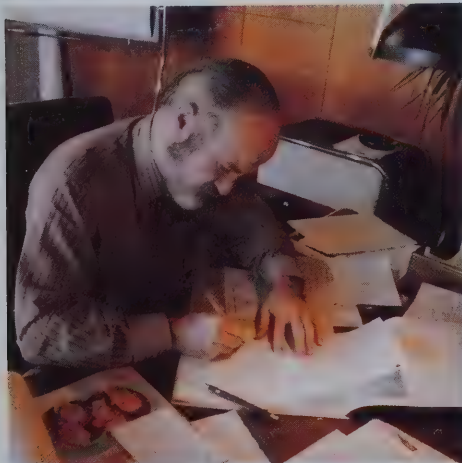
During 1975, Northern Telecom introduced a new business communications system with a notable range of capabilities. Called SL-1, it is the first fully digital private automatic branch exchange (PABX) and stands as yet another in a long line of innovative developments by Bell-Northern Research.

Northern Telecom's research and development organization is much like SL-1 — highly resourceful and flexible. In an era of proliferating technology, Northern Telecom R&D is structured to take change in its stride and, as proved by its record of innovation, even lead the way.

The heart of the company's dynamic research program is a group of modern buildings set on expansive grounds on the western outskirts of Ottawa. This is home to the central laboratories of Bell-Northern Research Limited, the largest industrial research organization in Canada and one of the major research centers in North America. BNR is owned by Northern Telecom and Bell Canada.

The staff numbers 1,700, more than 1,100 of which are scientists, engineers, industrial designers or have other special technical or professional qualifications. The reputation Bell-Northern Research has gained for its achievements and for its creative working atmosphere has attracted high-calibre people from all over the world.

The range of disciplines at BNR includes electrical, civil and mechanical engineering, chemistry, metallurgy, mathematics, physics, economics, psychology and more. A rapidly expanding field is that of computer programming as minicomputers and microprocessors play an increasingly important role in the operation of telecommunications systems and in manufacturing processes.



Dr. Donald Chisholm, president of BNR.

Silicon-on-sapphire is one of the new semiconductor technologies. A Bell-Northern Research scientist prepares a silicon-on-sapphire wafer, containing 93 integrated circuits, for inspection in a scanning electron microscope.





Dr. Donald A. Chisholm, president of BNR, has characterized the activities within the organization as an innovative chain with clear, practical objectives.

The achievement of these objectives at BNR is financed by approximately \$60 million a year. A part — usually about 10 percent — is applied to keeping track of current new technological developments and carrying out pure exploratory work. However, the major portion of the budget goes towards advancing carefully planned programs, keyed to the product needs of Northern Telecom and its telephone company customers.

Research as an integrated project

A hidden and unusual strength in the Northern Telecom research structure is the manner in which it has been integrated into the daily operating life and needs of its telephone company customers. It is unusual in its degree and effectiveness, not only in the telecommunications industry, but in industry in general.

It has come about through Northern Telecom's historical relationship with Bell Canada, in which the development of new telecommunications equipment and products has always been a tripartite effort by operating telephone company, manufacturer and research organization.

With inputs from user, maker and designer there is the greatest degree of assurance of the maximum reduction of operating expenses for the most competitive of capital outlays, of the highest probability of the equipment meeting the needs of the operating company and, therefore, of the consumer, and of the highest level of reliability and quality of service.

With this research-manufacturer-telephone-company integration it is possible to successfully take a telecommunications project from idea or concept through every stage of development and manufacture, to use and installation on a local, national and international basis. It also provides a means to monitor the service and reliability characteristics of the new product that is of benefit to all other telephone companies.

Research for international markets

As a first step in a long-range plan to develop research capabilities on a world-wide scale, a BNR laboratory has been set up at Palo Alto, in the heart of California's "Silicon Valley", focal point for major activities in the semiconductor field. It has two prime functions: first, to form the nucleus of a group that will carry on research with emphasis on products for the U.S. market; and secondly, to monitor and seek applications for developments



(Top) A BNR engineer tests an SP-1 electronic switching system, modified to meet the conditions of the Puerto Rican market. Northern Telecom, through its U.S. subsidiary, has a master agreement to supply the Puerto Rico Telephone Company with central office switching systems. The agreement will extend over several years and should exceed \$100 million in sales.

(Bottom) Technician in Northern Telecom plant in Lucerne, Quebec, uses a laser trimmer to adjust resistance value in a thick-film electronic circuit for the SL-1 digital business communications system.

in integrated circuits and other semiconductor devices.

Such localization of research will become even more important when research facilities are set up in countries outside North America. In Europe, for example, each country has its own telephone network standards. Equipment has to be designed for, or adapted to, these unique national requirements. In addition, there is a general insistence that foreign firms wishing to do business in individual European countries should set up local research and development organizations as well as manufacture locally. The Palo Alto laboratory is, accordingly, an important pilot project for future international research operations.

Decentralization is already a BNR characteristic. Laboratories in Montreal, Quebec, and Brampton, Ontario, plus three additional BNR locations in the Ottawa area carry out a wide variety of specialized studies into telecommunications transmission, distribution and maintenance, electro-mechanical and electronic switching systems, apparatus development, systems planning, and research on materials and processes.

Benefits of research

BNR innovations, related to the needs of telephone companies, have given Northern Telecom a vital competitive edge, enabling it to become the major supplier to Canadian telecommunications companies and to penetrate markets in the U.S., in European Common Market countries and in Asia — all within a brief span of five years. Among other benefits, this has expanded employment opportunities in Canada, as well as in the United States, Ireland, Turkey and Malaysia where Northern Telecom has set up manufacturing facilities on its own or as joint ventures.

Specific commercial successes have been notable, considering the short time frames involved. The first SP-1 stored-program-controlled switching system, designed in conjunction with telephone companies, went into operation a scant four years ago. By the end of 1975, more than 1.2 million lines of this totally BNR/Northern Telecom/Bell Canada designed and developed system had been ordered by North American telephone companies. These systems have a sales value of more than \$500 million.

A key R&D activity during 1975 was a broadening of the SP-1 family. A new member of the family, the SP-1E was announced in December. It is a more compact local switching system with greater capacity.

Working closely with Northern Telecom's many telephone company customers, SP-1 configurations have been developed which cover all major service applications — local, toll, centrex and operator services. Gaps are being filled in with such special capabilities as common

BNR is an acknowledged world leader in the development of charge coupled devices (CCDs). It pioneered the 4,000, 8,000 and the 16,000-bit serial memories. Two BNR staff members transcribe a conventional circuit drawing of a CCD on to magnetic tape in preparation for further computerized design operations.





channel signalling arrangements (CCSA). With CCSA, only one channel is required to handle signalling between two central switching offices, reducing the quantity and complexity of common equipment and trunking and making possible significant economies for telephone companies.

For Northern Telecom R&D, market need is the mother of invention. The determination of market need comes from a number of sources: from the market research carried out by Northern Telecom divisions; from the market research of individual telephone companies; from the need of telephone companies to develop equipment that will compete effectively with rival communications industries, and from requests to telephone companies by private and business subscribers for specialized equipment.

Several years ago, an examination of the PABX field indicated a need for an up-to-date business communications system for the 100-line market. This led to the development of the Pulse 80 electronic private automatic branch exchange system which provides a variety of service capabilities in an exceptionally compact and economical package. Since its introduction in 1972, more than 6,000 units of Pulse 80 and of Pulse 120, a larger capacity version, have been sold to customers in 12 countries. Sales have been particularly strong in the U.S. where Pulse has outsold all competitive systems in its class. This highly competitive market has offered a real test for the process of integrated R&D.

1975 saw headlines made by another BNR/Northern Telecom development — laying of the LD-4 high-capacity cable transmission line linking Toronto, Ottawa and Montreal. The LD-4 project is a model of the successful tripartite definition of need, method and product. It is designed to provide circuits for over 20,000 simultaneous two-way telephone conversations or a mix of TV, data and voice traffic. It stretches 415 miles and is the world's longest commercial digital cable transmission system. The Montreal-Ottawa link for Bell Canada is now in service, with the complete line scheduled to be operational in 1976. LD-4 was developed to meet the specific need of the forecast doubling of service and traffic volumes every five to seven years — an increase that would tax the capacity of existing transmission systems, based on older technologies, to keep pace.

The thrust of BNR research activities is in many directions — into industrial design and esthetics, exemplified by the sophisticated styling of the Pulse console and the Logic series of multi-line telephone sets; and into human convenience engineering, such as the development of TOPS (Traffic Operator Position System).

Studies, in conjunction with telephone companies, of fatigue and morale problems among telephone operators led to

The designs of Northern Telecom's award-winning Contempra, its Logic family of telephones and Centurion coin telephone were conceived by the Design Interpretive team at Bell-Northern Research. John Tyson, (standing) director of the team, is seen working on further refinements of the Logic series of modular telephones.

the design of the distinctive cordless TOPS console that provides a modern, individualized work station. It has revolutionized the role and working environment of telephone operators, enabling them to cope with a great variety of operator-handled calls with increased speed, accuracy and efficiency. Instead of jacks and plugs, a wide range of call routing and data recording functions can be dealt with quickly, using a computer-linked electronic keyboard and a visual display unit. TOPS is a version of SP-1. The first installation went into service at Juneau, Alaska, in 1975. In less than 12 months — by the first quarter 1976 — there were 21 TOPS on order or in service in Canada and the U.S.

Telecommunications “revolution”

The four years since the establishment of BNR have seen a “revolution” in telecommunications technology. The seeds were sown more than two decades ago with the invention and application of transistors on more-or-less a one-for-one replacement basis with vacuum tubes. The industry moved to another technology plateau in the late 1960s with the development of medium and large-scale integrated circuits which made it possible to incorporate complex electronic networks and logic elements within microscopic chips of silicon or other substrate.

Today, a single basic function — such as storage of data or the switching of voice transmission from one circuit to another — can be handled by a multitude of integrated circuit devices, though factors such as speed, reliability and power consumption may vary from one to the other. A major problem of coordination and control has emerged for systems manufacturers; specifically, a need to standardize on certain components and assure that the decisions made in the selection of technology meet efficiency objectives.

Northern Telecom has responded to this need by establishing the Manufacturing Research Center. Located in Ottawa, MRC acts as a coordinating interface between the design and development activities of BNR and the worldwide manufacturing and marketing activities of various Northern Telecom divisions. One of many responsibilities assigned to MRC is the formidable task of materials and component standardization — a program designed to allow the imaginative use of new technology with the assurance of timely component availability.

The Manufacturing Research Laboratory was added later to provide additional engineering depth and capability in technology assessment and the planning of technology strategy. In 1975 the Semiconductor Standards Engineering group was created to concentrate attention on the all-important field of integrated circuits.

Laboratory development of the basic SL-1 digital business communications system was completed at Bell-Northern Research in 1975. Prototype electronic circuits were hand-assembled and tested at Bell-Northern Research, a necessary prelude to production design of printed circuit boards for regular manufacture by Northern Telecom.





The future

The Northern Telecom/BNR R&D organization has many new developments underway, some close to being introduced. Major ones include:

- a digital microwave radio system that will eventually extend digital transmission capabilities of networks across Canada and in other parts of the world, greatly increasing their efficiency and capacity
- digital communications systems for small businesses
- an electronic telephone set
- the project that is possibly attracting the greatest interest, the development of digital switching systems, stored-program controlled and completely electronic (switching handled by solid state components instead of by electro-mechanical devices). The objective is to have, by 1980, a complete line of digital switching equipment for all new central office applications.

The SL-1 digital business communications system has already established both the viability of digital switching techniques and Northern Telecom/BNR leadership in this vital field.

Over the years, Northern Telecom has developed a notable ability to anticipate the telecommunications market and to design, produce and successfully launch new products. It has become especially adept at getting ahead of competition in introducing innovative systems, in the process building up strong relationships with major telephone companies.

These close relationships, with Bell Canada and other telephone companies in Canada and the U.S., enable Northern Telecom to know intimately and to anticipate accurately which new technologies are needed by the telephone companies, what these new technologies can do for an individual company and which will serve the individual company best.

In the long run, the effectiveness of the Northern Telecom/BNR R&D structure will lie in its continued dynamism and flexibility, its responsiveness to change, its continued acceptance by its telephone company customers, and its ability to enlarge the company's position in the marketplace through innovation.

The signs are clearly upward. In 1969, Northern Telecom designed only 6 percent of the products it produced and sold; most products were produced under licence. At the end of 1975, proprietary products accounted for 50 percent of sales. Predictions are that proprietary designs will reach 70 percent of the total product line by 1978 and will continue to climb.

In 1975 BNR successfully designed and tested an advanced data switching system based upon the central processing unit of the SL-1. The machine in the background forms the basis of the Datapac network which will be put into service by Trans-Canada Telephone System in 1976.

Financial review

Consolidated sales were \$1,018,382,000 in 1975 compared to \$970,711,000 in 1974, an increase of 5 percent principally as a result of price increases. Substantial sales volume gains were achieved in the switching and transmission businesses, but wire and cable volume declined in generally slower markets. Sales in 1974 were 58 percent above the previous year due largely to higher volume of established products and the successful introduction of several new products.

Sales to Bell Canada increased during the 1974-1975 period but accounted for a smaller portion of total sales. Bell Canada share of total sales declined to 44 percent in 1975 and 48 percent in 1974 compared with 52 percent in the previous year.

Net earnings of \$67,524,000 in 1975 were a new company record, equal to 6.6 percent of sales and an increase of 26 percent over 1974. Net earnings of \$53,753,000 in 1974 were 68 percent above the previous year and represented 5.5 percent of sales.

Wage and salary rates and the unit costs of materials have escalated during the last two years due to inflation. Selling prices have been raised but at a significantly lesser rate than inflation. Product redesigns, new facilities and methods, and other programs to reduce manufacturing costs and increase productivity have partially offset the effects of inflation and have improved gross profit margins and contributed to the higher earnings performance. The number of employees at the end of 1975 was 1400 below the 1973 year-end level.

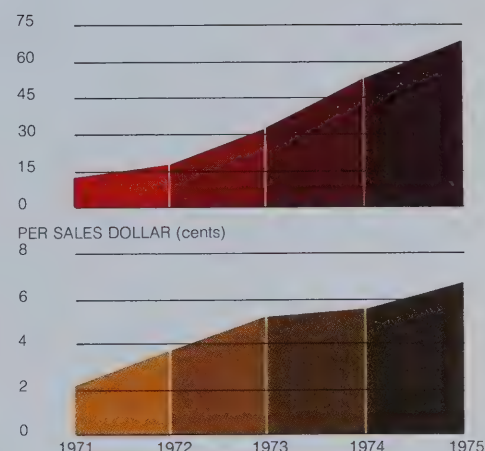
Operating expenses increased during the 1974-1975 period but declined in relation to sales. These expenses increased as a result of inflation in employment and other costs and to support the growth of the business. Selling and marketing programs were expanded, particularly in the United States and international markets. Research and development emphasis was placed on new switching, transmission and other products using digital technology.

Interest charges increased in both 1974 and 1975 due to rising trends in interest rates coupled with higher average borrowings required to meet expanded business needs. However, borrowings were reduced substantially in the second half of 1975, thereby reducing the level of interest charges at year end.

The effective tax rate in 1975 was 41.4 percent compared with 48.5 percent in 1974. The higher rate in 1974 was due principally to a net loss in a subsidiary, Microsystems International Limited, not allowed as an expense for tax purposes. The loss resulted from semiconductor operations which were discontinued in the first half of 1975.

Net earnings

(\$ millions)



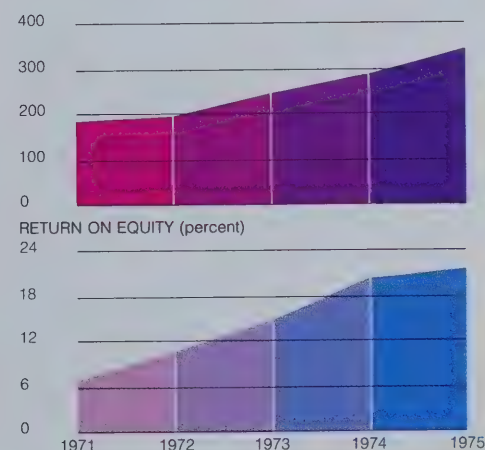
Personnel

NUMBER OF EMPLOYEES
(thousands)



Shareholders' equity

(millions \$)



Earnings per share amounted to \$2.55 in 1975 and \$2.05 in 1974, each a record high for the company over previous years. The calculations are based on the average number of shares outstanding during each year, 26,433,000 shares in 1975 and 26,164,000 shares in 1974. An increased quarterly dividend of 15 cents per share was paid from the fourth quarter of 1974 through 1975, compared with 12.5 cents per share paid during the first three quarters of 1974.

Funds of \$96,343,000 were generated from operations in 1975 and were used to supply the needs of the business and permitted repayment of \$51,075,000 of long-term debt. Capital expenditures in 1975 totalled \$32,511,000, and working capital increased by \$7,415,000 to \$290,544,000 at year end. Included in the working capital change are reductions in net inventories of \$25,944,000 and increases in cash and short-term investments of \$39,331,000.

Shareholders' equity in the company increased significantly in the last two years as a result of the reinvestment of the major part of each year's earnings in the business. At December 31, 1975 this equity amounted to \$339,864,000 compared with \$285,202,000 at the end of 1974. Return on shareholders' average equity (net earnings divided by the average of the beginning and ending shareholders' equity for each year) was 21.6 percent in 1975 compared with 20.3 percent in the previous year.

On October 7, 1975 Bell Canada, through underwriters, made 5,250,000 shares of Northern Telecom common stock available to the public. The offering reduced Bell Canada's holdings in Northern Telecom, assuming all outstanding warrants are exercised, to approximately 62 percent. The shares were offered

on the basis of a unit consisting of one Northern Telecom share and one-half Bell Canada warrant. A full warrant is required to purchase one common share of Bell Canada. Of these units, 3,000,000 were offered in Canada and 2,250,000 were offered in the United States. The offer of 3,000,000 Northern Telecom common shares in Canada represented the largest common stock financing ever effected in this country.

Following the U.S. offering, Northern Telecom was accepted for listing on the New York Stock Exchange. The listing took effect November 10, 1975. The company is also listed on stock exchanges in Montreal, Toronto and Vancouver since January, 1974 following the first public offering on December 4, 1973.

The following table shows the range of market prices of the common shares of the company for the last two years as quoted on the Toronto Stock Exchange, the principal market in which the shares have been traded.

1975		
Quarter	High	Low
Fourth	27½	22¾
Third	31⅝	26
Second	29⅞	21½
First	23⅝	16¼
1974		
Quarter	High	Low
Fourth	22¼	14⅝
Third	25¼	19¼
Second	23¾	19⅞
First	22⅝	15½

On February 19, 1976 the closing price of the company's common shares was \$32.625 on the Toronto Stock Exchange and U.S. \$32.875 on the New York Stock Exchange.

Principal product lines

(thousands of dollars)

	1975	1974	1973	1972	1971
Sales					
<i>Manufacturing</i>					
Switching	\$ 385,716	\$313,705	\$177,122	\$161,210	\$178,753
Wire and cable	158,059	190,815	137,551	119,388	135,561
Subscriber apparatus and business communications systems	180,350	181,378	117,401	106,707	94,953
Transmission	136,192	103,208	69,556	56,049	65,114
Others	4,850	23,676	16,056	8,117	1,542
	<u>865,167</u>	<u>812,782</u>	<u>517,686</u>	<u>451,471</u>	<u>475,923</u>
<i>Distributing</i>	153,215	157,929	95,135	82,842	100,373
	<u>\$1,018,382</u>	<u>\$970,711</u>	<u>\$612,821</u>	<u>\$534,313</u>	<u>\$576,296</u>
Contribution to profits*					
Manufacturing	\$113,900	\$ 93,051	\$ 54,670	\$ 40,149	\$ 23,470
Distributing	7,930	8,336	3,988	2,105	1,100
	<u>\$121,830</u>	<u>\$101,387</u>	<u>\$ 58,658</u>	<u>\$ 42,254</u>	<u>\$ 24,570</u>

*Represents earnings before income taxes, minority interest and extraordinary items.

**Consolidated
statement of
earnings**

(year ended December 31)

	1975 (thousands of dollars)	1974 (thousands of dollars)
Sales (note 3)	\$1,018,382	\$970,711
Cost of sales	738,203	725,289
Gross profit	280,179	245,422
Selling, general and administrative expenses	104,684	95,151
Research and development expenses	49,123	44,110
	153,807	139,261
Earnings from operations	126,372	106,161
Income from investments	3,756	2,945
	130,128	109,106
Interest charges		
Long-term debt	6,891	4,605
Other	1,407	3,114
	8,298	7,719
Earnings before underlisted items	121,830	101,387
Provision for income taxes (note 4)	49,731	50,663
	72,099	50,724
Minority interest in net (profit) loss of subsidiary companies before extraordinary item	(1,852)	3,029
Net earnings before extraordinary item ...	70,247	53,753
Extraordinary item (note 5)	2,723	—
Net earnings for the year	\$ 67,524	\$ 53,753
Net earnings per share (note 9)		
— before extraordinary item	\$ 2.65	\$ 2.05
— after extraordinary item	\$ 2.55	\$ 2.05

**Consolidated
balance sheet**

(as at December 31)

Assets

Current

	1975 (thousands of dollars)	1974 (thousands of dollars)
Cash and short-term investments at cost (approximates market value)	\$ 53,282	\$ 13,951
Accounts receivable		
Affiliated companies	32,691	54,296
Other	110,413	90,604
Inventories (note 6)	229,028	254,972
Prepaid expense	6,879	5,447
Deferred income taxes	12,200	14,343
	444,493	433,613
Investment in affiliated company at cost ..	12,109	8,960
Other investments	2,204	1,697
Plant and equipment (note 7)	125,291	119,986
Deferred charges and goodwill	6,118	3,409
	<u>\$590,215</u>	<u>\$567,665</u>

On behalf of the Board of Directors:

J. Angus Ogilvy, Director

Charles Perrault, Director

Liabilities	1975 (thousands of dollars)	1974 (thousands of dollars)
Current		
Notes payable	\$ 14,803	\$ —
Accounts payable and accrued liabilities		
Affiliated companies	6,693	5,476
Other	111,636	111,339
Taxes payable	14,786	30,462
Long-term debt instalments due within one year (note 8)	6,031	3,207
	153,949	150,484
Long-term debt (note 8)	67,823	104,547
Deferred income taxes	23,885	23,690
Minority interest in subsidiary companies	4,694	3,742
	<u>250,351</u>	<u>282,463</u>
Shareholders' equity		
Capital stock (note 9)	158,982	153,754
Contributed surplus (note 10)	—	2,222
Retained earnings	180,882	129,226
	<u>339,864</u>	<u>285,202</u>
	<u>\$590,215</u>	<u>\$567,665</u>

**Consolidated
statement of
retained earnings**
(year ended December 31)

	1975 (thousands of dollars)	1974 (thousands of dollars)
Balance at beginning of year	\$129,226	\$ 89,208
Net earnings for the year	67,524	53,753
	196,750	142,961
Deduct: Dividends paid	15,868	13,735
Balance at end of year	<u>\$180,882</u>	<u>\$129,226</u>

**Consolidated statement
of changes in
financial position**

(year ended December 31)

	1975 (thousands of dollars)	1974 (thousands of dollars)
Source of funds		
Operations:		
Earnings before extraordinary item	\$ 70,247	\$ 53,753
Items not requiring funds		
Depreciation	23,822	25,797
Deferred income taxes	195	2,732
Minority interest in net profit (loss) of subsidiary companies	1,852	(3,029)
Other	227	2,185
Total from operations	96,343	81,438
Proceeds from long-term debt	14,351	40,648
Proceeds from issuance of capital stock	5,228	779
Proceeds from sale of plant and equipment after reflecting gains and losses in net earnings	3,384	7,531
	119,306	130,396
Application of funds		
Expenditures for plant and equipment	32,511	33,728
Extraordinary item	2,723	—
Reduction of long-term debt	51,075	5,682
Dividends	15,868	13,735
Investments in affiliated company	3,149	2,473
Other investments	507	1,164
Elimination of contributed surplus and acquisition of goodwill	5,158	644
Other	900	203
	111,891	57,629
Increase in working capital	7,415	72,767
Working capital at beginning of year	283,129	210,362
Working capital at end of year	\$290,544	\$283,129
The increase in working capital is accounted for by:		
Increase (decrease) in current assets:		
Cash and short-term investments	\$ 39,331	\$ (61,662)
Accounts receivable	(1,796)	43,811
Inventories	(25,944)	77,677
Deferred income taxes	(2,143)	3,004
Other	1,432	3,518
(Increase) decrease in current liabilities:		
Due to banks	—	28,945
Notes payable	(14,803)	—
Accounts payable and accrued liabilities	(1,514)	(10,826)
Taxes payable	15,676	(13,037)
Long-term debt due within one year	(2,824)	1,337
Increase in working capital, as above	\$ 7,415	\$ 72,767

Notes to the consolidated financial statements

(December 31, 1975)

1. Accounting policies

The following summary of major accounting policies is presented to assist in the interpretation of the financial statements.

Principles of consolidation

The consolidated financial statements include the accounts of Northern Telecom Limited ("the Company") and all subsidiary companies. When stock ownership and control of subsidiary companies is acquired, the income of these companies is included in the consolidated financial statements only to the extent of the income earned since the date of acquisition of control.

Translation of foreign currencies

The accounts of the foreign subsidiary companies have been translated into Canadian dollars at exchange rates prevailing at the balance sheet dates for working capital items, at exchange rates prevailing at the respective transaction dates for non-current assets and liabilities (and related depreciation and amortization) and at average exchange rates prevailing during the years for income and expenses.

Depreciation

Depreciation is calculated on the straight-line method using rates based on the expected useful lives of the respective assets.

Research and development

Research and development expenses are charged to earnings in the years in which they are incurred.

Income taxes

The Company and its subsidiary companies use the tax allocation basis of accounting for income taxes. Reductions in income taxes relating to losses carried forward in subsidiary companies are not taken up in the accounts until the date of their realization is determined.

Inventories

Inventories are valued at the lower of cost (calculated generally on a first-in, first-out basis) and net realizable value. The cost of finished goods and work-in-process inventories is comprised of material, labor and manufacturing overhead.

Goodwill

Goodwill represents the unamortized excess of the acquisition costs over the net assets of subsidiary companies. Goodwill is amortized over periods not exceeding 40 years.

2. Disposal of segment of business

Results of continuing and discontinued operations due to the termination of the semiconductor business of Microsystems International Limited (Microsystems), including an extraordinary item (see note 5), are as follows:

	1975	1974
Sales		
Continuing operations	\$1,013,532,000	\$946,999,000
Discontinued operations	4,850,000	23,712,000
	<u>\$1,018,382,000</u>	<u>\$970,711,000</u>
Net earnings		
Continuing operations	\$ 71,956,000	\$ 62,158,000
Discontinued operations	(4,432,000)	(8,405,000)
	<u>\$ 67,524,000</u>	<u>\$ 53,753,000</u>
Net earnings per share		
Continuing operations	\$2.72	\$2.38
Discontinued operations	(0.17)	(0.33)
	<u>\$2.55</u>	<u>\$2.05</u>

3. Sales to affiliated companies

Sales to Bell Canada in 1975 were \$451,454,000 (1974 — \$461,883,000) and to telephone subsidiaries of Bell Canada in 1975 were \$59,484,000 (1974 — \$60,814,000).

4. Provision for income taxes

A reconciliation of the statutory income tax rate in Canada to the effective income tax rate is as follows:

	1975	1974
Statutory income tax rate	50.2%	52.5%
i) Reduction of Canadian federal taxes applicable to manufacturing profits	(7.9)	(9.2)
ii) Net loss of subsidiary companies (including investment write-off) not allowed as an expense for tax	—	8.4
iii) Difference due to minority interest in net profit (loss) of subsidiary companies	.8	(1.5)
iv) Other miscellaneous differences between the calculations of taxable income and book income before taxes	(2.0)	(1.7)
	<u>41.1</u>	<u>48.5</u>
Extraordinary item	.3	—
Effective income tax rate	<u>41.4%</u>	<u>48.5%</u>

5. Extraordinary item

Provision for costs of terminating the semiconductor business of Microsystems, less applicable income taxes of \$2,100,000 and minority interest of \$177,000

\$2,723,000

6. Inventories

At December 31, inventories consisted of the following:

	1975	1974
Raw materials	\$ 24,599,000	\$ 36,678,000
Work-in-process	110,898,000	129,670,000
Finished goods	93,531,000	88,624,000
	<u>\$229,028,000</u>	<u>\$254,972,000</u>

7. Plant and equipment

At December 31, plant and equipment consisted of the following:

	1975	1974
Cost		
Land	\$ 6,859,000	\$ 6,947,000
Buildings	58,739,000	61,109,000
Machinery and equipment	224,479,000	210,161,000
	<u>290,077,000</u>	<u>278,217,000</u>
Less: Accumulated depreciation		
Buildings	18,637,000	23,638,000
Machinery and equipment	146,149,000	134,593,000
	<u>164,786,000</u>	<u>158,231,000</u>
	<u>\$125,291,000</u>	<u>\$119,986,000</u>

8. Long-term debt

	1975	1974
Sinking fund debentures		
4¾% due November 1, 1976	\$ 4,958,000	\$ 4,958,000
5¾% 1962 Series due December 15, 1982	10,969,000	10,984,000
6½% Series C due April 15, 1986	10,516,000	11,073,000
9¾% Series D due April 30, 1990	32,797,000	33,525,000
	<u>59,240,000</u>	<u>60,540,000</u>
Bank loans	14,614,000	40,151,000
Other	—	7,063,000
	<u>73,854,000</u>	<u>107,754,000</u>
Less: Amount included in current liabilities	6,031,000	3,207,000
	<u>\$67,823,000</u>	<u>\$104,547,000</u>

At December 31, 1975, the amount of long-term debt payable, including sinking fund requirements, in the years 1976 through 1980, was \$6,031,000, \$3,035,000, \$17,388,000, \$2,950,000 and \$2,950,000 respectively.

9. Capital stock

Authorized — 39,000,000 common shares without nominal or par value for an aggregate value not exceeding \$225,000,000.

	1975		1974	
	Shares	\$	Shares	\$
Outstanding:				
January 1	26,209,556	\$153,754,000	26,162,500	\$152,975,000
Issued during the year ..	259,938	5,228,000	47,056	779,000
December 31	26,469,494	\$158,982,000	26,209,556	\$153,754,000

On December 9, 1974 the Company made an offer to exchange its common shares with the holders of common shares and share purchase warrants of Microsystems, on the basis of one share of the Company for seven shares or fifteen share purchase warrants of Microsystems. Under such offer, 47,056 common shares for an aggregate value of \$779,000 were issued in 1974 and 259,938 common shares for an aggregate value of \$5,228,000 were issued in 1975.

Earnings per share calculations are based on the average number of shares outstanding during each year.

10. Contributed surplus

Contributed surplus at December 31, 1974 represented the net excess amount paid by minority shareholders of Microsystems over their proportional interest acquired on the issue of common shares. Contributed surplus was reduced in 1974 by \$644,000 and was eliminated in 1975 as a result of the exchange of Microsystems' common shares and share purchase warrants for common shares of the Company at exchange prices in excess of the shareholders' equity per share at dates of issue.

11. Remuneration of directors and officers

During the year 1975, there were 16 (1974 — 16) directors of the Company whose aggregate remuneration as such was \$135,000 (1974 — \$127,000). Certain of them were directors of subsidiary companies; as such their aggregate remuneration was: from Nedco (1975) Ltd. \$3,000 (1974 — \$2,000); from Nedco Ltd. \$1,000 (1974 — \$5,000); from Nevron Industries Company, Limited \$2,000 (1974 — \$2,000); from Northern Electric Company (Ireland) Limited \$4,000 (1974 — nil); and from Northern Telecom, Inc. \$4,000 (1974 — \$2,000).

The Company had 33 officers during 1975 (1974 — 32) and their aggregate remuneration as officers was \$2,494,000 (1974 — \$2,196,000). Certain of them were officers of Northern Telecom, Inc. and as such their aggregate remuneration was \$180,000 (1974 — \$141,000). During 1975, four officers of the Company (1974 — 4) served also as directors of the Company.

12. Plan for employees' pensions

The Company and certain subsidiary companies have non-contributory plans which provide for service pensions based on length of service and rates of pay. The last actuarial reviews of December 31, 1973 indicated that all vested benefits were fully funded and that on a winding-up basis no unfunded liability existed in respect of past service pension costs.

The cost of the plans charged to earnings for the years ended December 31, 1975 and 1974 was \$20,368,000 and \$19,435,000 respectively.

13. Commitments

The Company and its subsidiary companies are party to certain non-cancellable leases for property and equipment used in the performance of their business. At December 31, 1975 the aggregate minimum annual rental commitments for all such leases, and the commitments for non-capitalized financing leases included therein, amounted to \$8,765,000 in 1976, \$8,092,000 in 1977, \$6,420,000 in 1978, \$5,629,000 in 1979, \$3,713,000 in 1980 and lesser amounts thereafter. Total rental expense amounted to \$8,817,000 for 1975.

14. Trust agreement restrictions

Under the terms of the trust agreement relating to the debentures of the Company, there are certain restrictions with respect to the payment of dividends (other than stock dividends) and the purchase, redemption or reduction of any of its shares. As at December 31, 1975, \$174,127,000 of shareholders' equity was free from these restrictions.

15. Canadian anti-inflation legislation

The Company and its Canadian subsidiary companies are subject to legislation which became effective October 14, 1975 and limits increases in sale prices, remuneration, net earnings and dividends. Based on preliminary compliance calculations, it is management's opinion that the legislation has been adhered to from the effective date.

16. Subsequent event

Effective March 1, 1976 the name of the Company was changed from Northern Electric Company, Limited to Northern Telecom Limited. This change was ratified by the shareholders at a special general meeting held on February 25, 1976 and subsequently confirmed by supplementary letters patent.

Auditors' report

The Shareholders
Northern Telecom Limited

We have examined the consolidated balance sheets of Northern Telecom Limited and subsidiary companies as at December 31, 1975 and 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examinations included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and 1974 and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis.



Chartered Accountants
Montreal, Quebec
February 2, 1976, except for note
16 which is as of March 1, 1976

Condensed consolidated statement of earnings

(dollar amounts in millions
except per share figures)

	1975	1974	1973	1972	1971
Sales	\$1,018.4	\$970.7	\$612.8	\$534.3	\$576.3
Cost of sales	(738.2)	(725.3)	(452.1)	(405.4)	(465.6)
Operating expenses	(153.8)	(139.2)	(99.3)	(83.1)	(81.7)
Earnings from operations	126.4	106.2	61.4	45.8	29.0
Income from investments	3.7	2.9	3.8	2.1	1.3
Interest charges	(8.3)	(7.7)	(6.6)	(5.6)	(5.7)
Provision for income taxes	(49.7)	(50.6)	(30.6)	(23.6)	(14.5)
Minority interest in net (profit) loss of subsidiary companies before extraordinary items	(1.9)	3.0	4.0	1.6	2.5
Net earnings before extraordinary items	70.2	53.8	32.0	20.3	12.6
Extraordinary items*	(2.7)	—	—	(.2)	—
Net earnings	\$67.5	\$ 53.8	\$ 32.0	\$ 20.1	\$ 12.6
Net earnings per share: **					
— before extraordinary items	\$2.65	\$2.05	\$1.35	\$0.86	\$0.54
— after extraordinary items	\$2.55	\$2.05	\$1.35	\$0.85	\$0.54

An analysis of continuing and discontinued operations resulting from the termination of the semiconductor business of Microsystems International Limited including an extraordinary item in 1975 (see note 5 on page 19) is as follows:

Sales:

Continuing operations	\$1,013.5	\$947.0	\$596.9	\$526.5	\$574.8
Discontinued operations	4.9	23.7	15.9	7.8	1.5
	<u>\$1,018.4</u>	<u>\$970.7</u>	<u>\$612.8</u>	<u>\$534.3</u>	<u>\$576.3</u>

Net earnings:

Continuing operations	\$71.9	\$ 62.2	\$ 38.1	\$ 22.6	\$ 16.5
Discontinued operations	(4.4)	(8.4)	(6.1)	(2.5)	(3.9)
	<u>\$67.5</u>	<u>\$ 53.8</u>	<u>\$ 32.0</u>	<u>\$ 20.1</u>	<u>\$ 12.6</u>

Net earnings per share: **

Continuing operations	\$2.72	\$2.38	\$1.61	\$0.97	\$0.70
Discontinued operations	(0.17)	(0.33)	(0.26)	(0.12)	(0.16)
	<u>\$2.55</u>	<u>\$2.05</u>	<u>\$1.35</u>	<u>\$0.85</u>	<u>\$0.54</u>

* Net of income taxes and
minority interest

** Based on average number of
shares outstanding (thousands)

26,433	26,164	23,671	23,562	23,562
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Consolidated ten-year review	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
	(millions of dollars)									
Earnings and related data										
Total sales	\$1,018.4	\$970.7	\$612.8	\$534.3	\$576.3	\$563.6	\$482.5	\$426.3	\$403.3	\$400.2
Sales of company manufactured products	865.2	812.8	517.7	451.5	475.9	463.9	390.7	345.3	308.1	284.1
Depreciation on plant and equipment ..	23.8	25.8	16.6	13.0	11.7	12.4	10.5	9.9	8.6	7.9
Research and development expenses ..	49.1	44.1	32.7	28.0	29.7	31.0	25.9	21.7	23.8	22.6
Interest charges	8.3	7.7	6.6	5.6	5.7	5.1	3.6	2.7	2.7	2.7
Provision for income taxes	47.6	50.7	30.6	21.0	14.5	5.3	9.8	5.6	—	.7
Net earnings	67.5	53.8	32.0	20.1	12.6	4.1	11.0	9.4	2.3	10.1
Earnings per sales dollar (cents)	6.6	5.5	5.2	3.8	2.2	.7	2.3	2.2	.6	2.5
Earnings per share (dollars)	2.55	2.05	1.35	0.85	0.54	0.17	0.52	0.49	0.12	0.70
Dividends per share (dollars)	0.60	0.525	0.50	0.50	0.50	0.38	0.50	0.50	0.50	0.50
Financial position at December 31										
Working capital	290.5	283.1	210.4	175.2	176.9	188.3	150.1	122.4	121.8	118.6
Plant and equipment (at cost)	290.1	278.2	261.5	237.5	230.0	233.2	214.9	194.5	184.6	167.2
Accumulated depreciation	164.8	158.2	142.5	128.4	124.4	125.3	115.5	108.3	100.7	93.9
Capital expenditures	32.5	33.7	26.8	19.5	21.9	20.9	24.2	12.4	19.7	23.0
Long-term debt	67.8	104.5	69.6	73.5	77.1	79.0	41.9	43.0	45.0	47.0
Shareholders' equity	339.9	285.2	245.0	192.1	183.8	183.0	180.4	145.0	140.8	128.6
Employees* (December 31)	23,690	26,147	25,073	20,787	23,230	24,986	26,032	23,682	22,557	23,864
Employment costs*										
Payroll	331.6	306.7	219.7	199.0	205.5	211.0	190.3	162.4	146.3	134.3
Pension and other employment costs ..	38.4	35.7	29.5	23.2	22.8	20.6	14.8	13.0	10.8	9.7
Total	\$ 370.0	\$342.4	\$249.2	\$222.2	\$228.3	\$231.6	\$205.1	\$175.4	\$157.1	\$144.0

*Includes all subsidiary companies and
Bell-Northern Research Limited, an affiliate.



Ewart O. Bridges, second from right, group vice-president, switching, with officials of his divisions, on a recent visit to the Calgary plant. Elliott Turcot, vice-president, advanced switching, is at extreme right.



Kenneth H. Woodley, at right, group vice-president, subscriber apparatus, at a meeting with senior group staff.



William J. Pardy, right, group vice-president, cable, transmission and outside plant, discussing production with Jeffrey H. Kingdon, Winnipeg plant manager.

Groups and Subsidiaries

Northern Telecom in Canada is divided into three product groups — cable and transmission products, switching equipment and subscriber apparatus. The company's two major subsidiaries in North America are Northern Telecom, Inc., Waltham, Mass., and Nedco (1975) Ltd. of Montreal.

Switching Group

The switching group is made up of four divisions, three producing digital, electro-mechanical, and electronic switching systems, and the fourth division, switching supply products, which includes metal products, spare parts and special products, and power equipment. The group operates nine plants: one in St. John's, Newfoundland, five in greater Montreal, Quebec, and one each in Brampton, Ontario, Winnipeg, Manitoba, and Calgary, Alberta. Group employment totals 8,500: 6,300 people in manufacturing and administration and 2,200 in field installation services.

The electronic switching division produces the SP-1 family of telephone central office switching systems. SP-1 lines on order or in service now exceed 1.2 million. The electro-mechanical switching division manufactures the Number 5 system which is now updating non-electronic switching offices for telephone companies across Canada. It also manufactures step-by-step central offices, switchboards, and connectors.

Switching supply products manufactures parts for total switching systems. This division is responsible for metal products and parts for the other divisions including battery chargers, high capacity rectifiers, converters, and power plants.

Group Vice-President is Ewart O. Bridges.

Subscriber Equipment Group

One division of this group, station apparatus, is responsible for the production of residential, business, and public telephone sets of all types. Another, the subscriber switching division, manufactures communications systems for businesses, and a third, the repair and overhaul division, repairs telephones and other communications equipment. In all the group employs about 3,400 people.

The station apparatus division has plants in London, Ontario, Amherst, Nova Scotia and Regina, Saskatchewan, producing such items as standard telephone sets, Logic telephone sets, Contempra and decorator telephones, multi-button key sets, call directors and consoles, Centurion coin telephones, handsfree units, telephone headsets and telephone cords.

The subscriber switching division has its main plant in Belleville, Ontario, where the Pulse 80 and 120 electronic private automatic branch exchanges (PABXs), as well as the SL-1, are produced. The SL-1 is the first digital PABX and went into production late in 1975. Also manufactured in Belleville are key telephone and intercom systems. This division has a smaller plant in Saint John, N.B., producing cables and connector cables for PABXs.

The repair and overhaul division has plants in the Atlantic Provinces, Quebec, Ontario and Western Canada to provide fast turn-around of customers equipment.

Group Vice-President is Kenneth H. Woodley.

Cable, Transmission and Outside Plant Group

This group, which employs close to 5,000 people, manufactures products required to provide communications circuits in the telecommunications industry.

The transmission divisions manufacture a wide range of transmission products in plants located in St. Laurent, Quebec and Lucerne, Quebec. Digital cable carrier, such as the LD-4

and microwave radio, such as the RA-3, satellite systems and associated terminal equipment are supplied to telecommunications utilities and others to provide communications circuits between telephone exchanges across countries and around the world.

The cable divisions manufacture wire and cable for both telecommunications and power applications in three plants located in Lachine, Quebec, Kingston, Ontario and Calgary, Alberta. Northern Telecom is Canada's largest producer of communications cable, which is supplied mainly to telephone companies and telecommunications utilities. Power cable products are sold to power utilities, electrical contractors and a wide range of industrial users.

The outside plant division manufactures a wide range of products for interconnecting various system products between the subscriber's apparatus and telephone exchange.

Group Vice-President is William J. Pardy.

Northern Telecom, Inc.

Northern Telecom, Inc., was established in 1971 as the company's U.S. manufacturing and marketing subsidiary. Today, with over 1,300 employees and six manufacturing plants located throughout the United States, it has become a major supplier to the telecommunications industry in that country.

With headquarters in Waltham, Massachusetts, it offers the complete line of Northern Telecom products through sales offices and distribution centers across the continental United States, as well as in San Juan, Puerto Rico and Honolulu, Hawaii.

The U.S. company's manufacturing operations are divided into two principal groups: switching and systems products and subscriber equipment. The company is the largest seller of electronic private branch exchanges in the U.S.

The company manufactures electronic switching in Butner, North Carolina; business communications systems in Mountain View, California; printed circuit boards and telephone apparatus in West Palm Beach, Florida; test set and transmission equipment in Concord, New Hampshire and telephone apparatus in Port Huron, Michigan and Nashville, Tennessee.

Group vice-presidents are Thomas R. Worthy, switching and systems products and James H. Vogt, subscriber equipment.

Nedco (1975) Ltd.

Nedco (1975) Ltd., is the largest distributor of electrical and telecommunications products in Canada. Originally the distribution division of Northern Telecom, it was incorporated as a separate company in 1972.

Today Nedco and its subsidiaries, Zenith Electric Supply Ltd., and Zentronics Ltd., have outlets in 41 cities and towns across Canada. Nedco's head office is in Montreal; its national distribution centre is in Toronto. The company employs about 1,000 people.

Nedco distributes more than 15,000 products from over 200 manufacturers. Included among these manufacturers is Northern Telecom which supplies a little more than 20 percent of Nedco's total product line. The main product groups are wire and cable, wiring supplies, illumination products, utility products, motor control systems, and more recently, telecommunications and industrial electronic products. Its major markets are the construction and mining industries, manufacturing, public utilities and governments.

Chairman and Chief Executive Officer is W. F. S. Walker; Earl B. Mathews is president.

United States group vice-presidents James H. Vogt, subscriber equipment (standing) and Thomas R. Worthy, switching and systems products, reviewing business plans.



W. F. S. Walker, chairman and chief executive officer of Nedco (1975) Ltd., on the construction site of the Olympic Village in Montreal.



Northern Telecom Limited/Manufacturing plants

Canadian Operations

Switching Group	Subscriber Equipment Group	Cable, Transmission, Outside Plant Group
Toronto, Ont.	Toronto, Ont.	Montreal, Que.
Brampton, Ont. Electronic and electro-mechanical switching systems, relays	Amherst, N.S. Residential and business telephones and components	Calgary, Alta. Telephone cable and building wire
Calgary, Alta. Electronic switching equipment, cable forming	Belleville, Ont. Electronic and digital PABXs, components and key telephone systems	Kingston, Ont. Telephone cable and enamel wire
Lachine, Que. Power equipment, test sets	Calgary, Alta. Repair and overhaul of telephone sets	Lachine, Que. Communication and power cables
Lachine, Que. Relays, printed circuit packs	London, Ont. Residential and business telephone sets and components	Lachine, Que. Outside plant equipment
LaSalle, Que. Step-by-step switching systems, connectors, multiple cables	Moncton, N.B. Repair and overhaul of electronic equipment	Lucerne, Que. Digital transmission equipment, satellite electronics
Montreal, Que. Sheet-metal and piece parts, machines and tools	Montreal North, Que. Repair and overhaul of telephone sets, test sets, teletypewriters and electronic equipment	St. Laurent, Que. Multiplex, voice frequency and radio equipment, capacitors
St. John's, Nfld. Networks and sensors	Regina, Sask. Telephone sets and buzzers	
Winnipeg, Man. Cable forming and dry-reed relays	Saint John, N.B. Cables for PABXs and connector cables	
	Saint John, N.B. Repair and overhaul of telephone sets	
	Toronto, Ont. Repair and overhaul of telephone sets, test sets and teletypewriters	



International Operations

Northern Telecom, Inc. Waltham, Mass.		Northern Electric Telekomünikasyon A.S. Istanbul, Turkey	Northern Electric Company (Ireland) Ltd. Galway Republic of Ireland	Northern Electric (Asia) Ltd. Singapore
Switching and systems products	Subscriber equipment	Istanbul Electro-mechanical switching systems, switchboards and telephone apparatus	Galway Telephone sets and PABX components	Penang, Malaysia Heat coils, cable forms, capacitors and switchboard lamps
Butner, N.C. Electronic switching systems	Mountain View, Cal. Electronic and digital PABXs			
Concord, N.H. Voice frequency and test equipment	Nashville, Tenn. Telephone sets and distribution centre			
	Port Huron, Mich. Telephone sets and components			
	West Palm Beach, Fla. Printed circuit boards, printed circuit packs and telephone components			
		Northern Telecom plants at: 1. LaSalle, Quebec — switching products 2. St. Laurent, Quebec — transmission, analog and radio 3. Winnipeg, Manitoba — cable forming and dry-reed relays 4. Butner, North Carolina — switching systems 5. Concord, New Hampshire — transmission and test equipment 6. Istanbul, Turkey — switching systems and other products		



4



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6



Corporate information

*Major subsidiaries

(with percentage ownership)

Nedco (1975) Limited (100%)

Nevron Industries
Company Limited (100%)

Northern Electric
(Europe) N.V. (100%)

Northern Electric
(International) N.V. (100%)

Northern Electric
(Asia) Limited (100%)

Northern Electric
Export Corporation (100%)

Northern Electric
France, S.A. (100%)

Northern Electric
of Canada (U.K.) Ltd. (100%)

Northern Electric Company
(Ireland) Limited (100%)

Northern Electric
Telekomünikasyon A.S. (51%)

Northern Telecom, Inc. (100%)

*The names of all subsidiaries using Northern Electric are being changed to Northern Telecom as local laws permit.

Affiliate company

Bell-Northern Research Limited (49%)

Annual Meeting

The annual meeting of the shareholders will take place at 2 p.m., April 15, 1976 in the Ballroom of Le Château Champlain, Montreal, Que.

Listing of Stock

Montreal Stock Exchange
New York Stock Exchange
The Toronto Stock Exchange
Vancouver Stock Exchange
Stock Symbols:

NT on NYSE

NTL on Montreal, Toronto and
Vancouver exchanges

Transfer Offices

Company offices:

1050 Beaver Hall Hill, Montreal
10 King Street East, Toronto

Montreal Trust Company
Halifax, Winnipeg, Regina,
Calgary, Vancouver

Manufacturers Hanover Trust Company
New York, N.Y.

Registrars

Montreal Trust Company
Halifax, Montreal, Toronto,
Winnipeg, Regina, Calgary, Vancouver
Manufacturers Hanover Trust Company
New York, N.Y.



1. BNR Inc. of Palo Alto, California, is adapting the Northern Telecom Pulse 120 electronic private automatic branch exchange for Northern Electric (Europe). The first modified EPABX, seen here undergoing a system performance check by BNR engineers, was shipped in December.

2. Aerial view of the Nashville, Tennessee plant.

3. Bell-Northern Research buildings in Ottawa, at night.

Principal products

Subscriber apparatus

Dial, push-button
and key telephones
Contempra telephones
Centurion coin telephones
Logic series of telephones
Companion handsfree units

Business communications

Data systems
Digital data sets
Key telephone systems
Key intercom systems
Cordless switchboards
Electro-mechanical, electronic
and digital PABX systems

Central office switching equipment

Step-by-step switching systems
Crossbar switching systems
SP-1 family of electronic
switching systems

Cable

Power cable
Telephone wires
Composite coaxial cables
Switchboard cables
Pulp-insulated exchange cables
Polyethylene insulated cables

Outside plant equipment

Terminals and closures
Loading devices
Protectors
Heat coils
Backboards
Apparatus cases

Transmission equipment

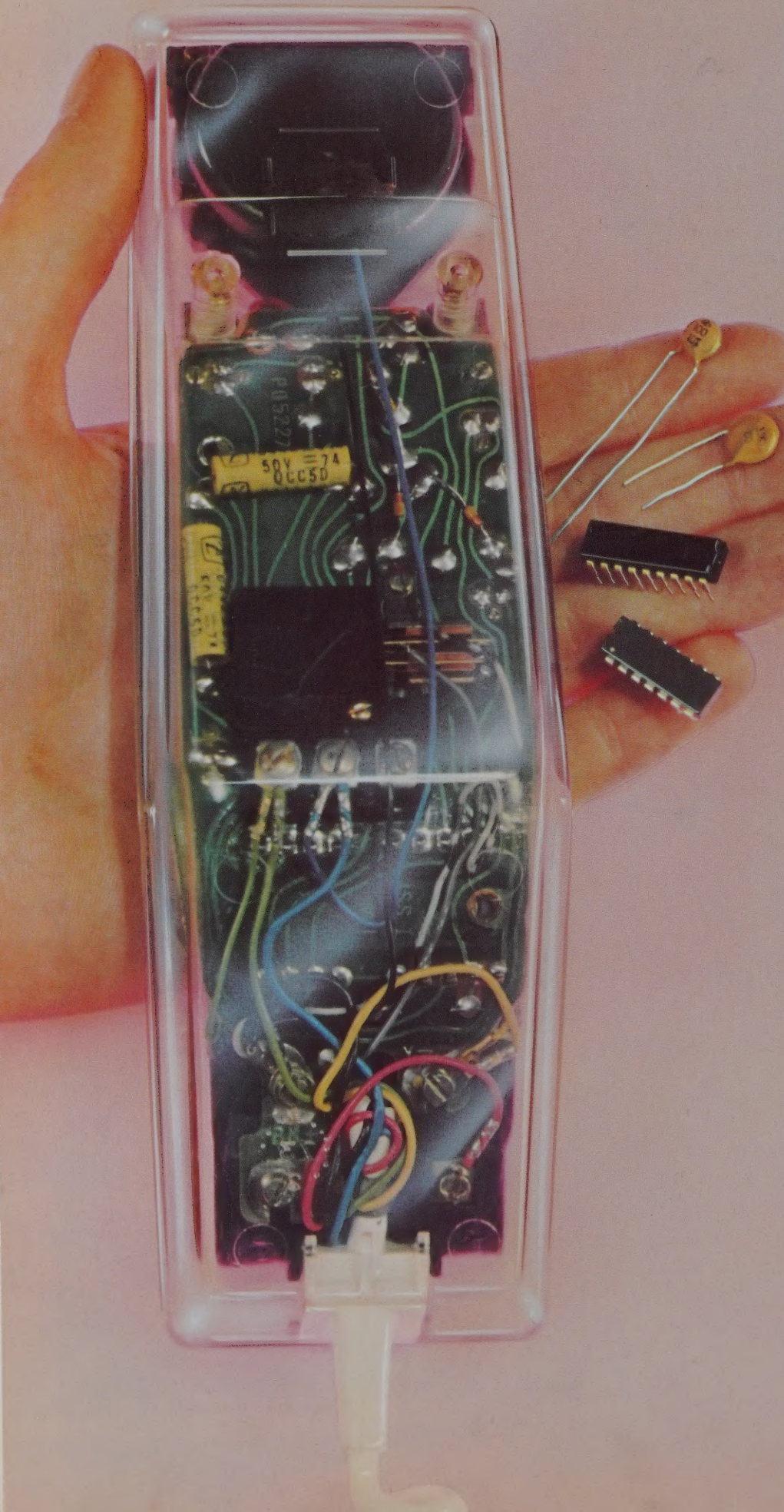
Analog and digital
carrier equipment
Analog and digital
multiplex equipment
Microwave radio systems
Communications satellite systems
Voice frequency equipment
and systems

The product names *TOPS*, *Contempra*, *Companion*, *Centurion*, *Logic* and *Pulse* used in this report are the trademarks of Northern Telecom.



TOPS (Traffic Operator Position System), a Bell-Northern Research/Northern Telecom development, has revolutionized the role and working environment of telephone operators. Instead of the traditional toll office switchboard (top photo) it provides a modern, individualized work station, with a computer-linked electronic keyboard and visual display unit, that enables the operator to handle calls with increased speed, accuracy and efficiency. At bottom is the Northern Telecom TOPS installation at Vista Florida Telephone System which serves Walt Disney World, near Orlando, Fla.

In the telephone of the future, a few electronic components, similar to the four shown, will replace the complex circuitry visible through the clear plastic mould of a Contempra telephone. Such a telephone is currently under development at Bell-Northern Research.



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